The Fiscal Monitor

A Publication of the Department of Finance

Financial results for January 1997

Deficit declines $0.4 billion in January 1997

The deficit in January 1997 was estimated at $1.4 billion, down $0.4 billion from January 1996. The year-over-year improvement reflected higher budgetary revenue (up $0.3 billion) and lower public debt charges (down $0.2 billion).

- Most of the increase in budgetary revenues was attributable to higher employment insurance (EI) premiums, reflecting the impact of changes to the base on which premiums are levied – from weekly maximum insurable earnings to annual maximum insurable earnings. This results in a one-time increase in receipts from EI premiums in the final quarter of 1996-97. This change, however, does not affect the annual amount of premiums paid. The decline in personal income tax revenues primarily reflected recoveries, in January 1996, from both EI and Canada Pension Plan accounts for overpayments relating to taxation 1994. There were no such recoveries in January 1997. The decline in goods and service tax (GST) collections was attributable to higher refunds. The increase in other excise taxes and duties was attributable to the timing of receipts, as well as the reclassification of the air transport tax, effective April 1996, to budgetary revenues from an offset to program spending.
- The decline in public debt charges was attributable to the impact of lower interest rates.
- Program spending was up slightly, reflecting the timing of payments and the reclassification of the air transport tax from an offset to program spending to budgetary revenues.

Deficit for April 1996 to January 1997 down by $13.6 billion

Over the April to January period, the deficit, at $7.3 billion, was $13.6 billion lower than in the same period in 1995-96.

- Budgetary revenues were up $7.6 billion or 7.2 per cent, on a year-over-year basis. This increase in collections reflected higher income taxes (up 6.6 per cent, or $4.2 billion) and non-tax revenues (up $1.5 billion), the latter primarily reflecting the gross proceeds from the sale of the Air Navigation System. Excise taxes and duties, which include the GST, were up 5.9 per cent or $1.2 billion. About half of this increase was due to the reclassification of the air transport tax to budgetary revenues. Employment insurance contributions were up 3.8 per cent, as the acceleration in payments, coupled with the impact of repayments last year more than offset the effect of lower premium rates in 1996 and 1997 and the lowering of the applicable earnings base on which premiums are calculated.
- Program spending declined by $4.5 billion or 5.1 per cent. The decline in program spending primarily reflected the impact of the restraint measures introduced in the 1994 and 1995 budgets. However, part of the decline to date was also due to timing factors, including the manner in which certain restraint measures are being implemented. This is especially applicable to the decline in transfers to other levels of government. Under the Canada Health and Social Transfer (CHST), cash payments are being made in equal monthly installments. In 1995-96, cash payments under the programs replaced by the CHST were concentrated in the first nine months of the fiscal year.
- Public debt charges were down $1.6 billion, or 4.1 per cent. Fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.
- As noted in the February 1997 budget, the deficit for 1996-97 is not expected to be any higher than $19.0 billion. This is down $5.3 billion from the original deficit target of $24.3 billion. The financial results to the end of January 1997 are consistent with this revised deficit outcome.

Table 1

Summary statement of financial transactions[1]

	January		April to January	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
Budgetary transactions				
Revenues	10,854	11,153	105,416	112,983
Program spending	-8,952	-8,982	-87,407	-82,943
Operating balance	1,902	2,171	18,009	30,040
Public debt charges	-3,761	-3,586	-38,978	-37,381
Deficit	-1,859	-1,415	-20,969	-7,341
Non-budgetary transactions	2,140	2,555	5,899	5,549
Financial requirements (excluding foreign exchange transactions)	281	1,140	-15,070	-1,792
Foreign exchange transactions	-3,792	-2,788	-2,504	-4,994
Financial requirements	-3,511	-1,648	-17,574	-6,786
Unmatured debt transactions	-795	-1,431	18,761	319
Change in cash balances	-4,306	-3,079	1,187	-6,467

Note: Data compiled by the Receiver General of Canada.

[1] (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	January		April to January	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
Income taxes				
Personal income tax	5,747	5,257	52,212	54,970
Corporate income tax	1,364	1,334	10,123	11,193
Other income tax revenue	227	301	1,630	2,029
Total income tax	7,338	6,892	63,965	68,192
Employment insurance contributions	1,226	2,038	15,546	16,143
Excise taxes and duties				
Goods and services tax	1,100	924	12,743	13,284
Customs import duties	157	221	2,337	2,095
Sales and excise taxes	523	795	5,823	6,757
Total excise taxes/duties	1,780	1,940	20,903	22,136
Total tax revenues	10,344	10,870	100,414	106,471
Non-tax revenues	510	283	5,002	6,512
Total budgetary revenues	10,854	11,153	105,416	112,983

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Table 3

Detailed statement of budgetary transactions – Expenditures

	January		April to January	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
Transfer payments to:				
Persons				
Elderly benefits	1,765	1,798	17,468	17,935
Employment insurance benefits	1,508	1,446	10,675	10,042
Other	119	119	1,158	1,136
Total	3,392	3,363	29,301	29,113
Other levels of government				
Canada Health and Social Transfer	1,321	1,267	16,209	12,592
Fiscal transfers	761	722	8,329	8,084
Alternative Payments for Standing Programs	-163	-166	-1,630	-1,679
Total	1,919	1,823	22,908	18,997
Other				
Agricultural subsidies	109	117	439	678
Indian and Inuit programs	177	231	2,916	2,997
Regional development	95	68	417	368
Science and technology	57	54	964	822
International assistance	173	151	1,263	1,258
Other	529	611	4,208	3,886
Total	1,140	1,232	10,207	10,009
Total transfers	6,451	6,418	62,416	58,119
Payments to Crown corporations	394	381	3,739	3,395
Operating and capital expenditures				
Defence	811	789	7,742	7,242
All other departmental expenditures	1,296	1,394	13,510	14,187
Total	2,107	2,183	21,252	21,429
Total program expenditures	8,952	8,982	87,407	82,943
Public debt charges	3,761	3,586	38,978	37,381
Total budgetary expenditures	12,713	12,568	126,385	120,324

Table 4

Non-budgetary transactions

	January		April to January	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
Loans, investments and advances				
Crown corporations	398	-16	3,408	855
Other	28	4	-187	-406
Total	426	-12	3,221	449
Specified purpose accounts				
Canada Pension Plan Account	-655	-445	-814	-858
Superannuation accounts	-150	-183	6,071	6,413
Other	76	93	203	298
Total	-729	-535	5,460	5,853
Other transactions	2,443	3,102	-2,782	-753
Total non-budgetary transactions	2,140	2,555	5,899	5,549

Table 5

Foreign exchange and unmatured debt transactions

	January		April to January	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
Foreign exchange transactions				
Net international reserves	-3,792	-2,788	-2,504	-4,994
Unmatured debt transactions				
Marketable bonds	2,100	2,700	29,656	30,803
Canada Savings Bonds	-354	-222	619	2,740
Treasury bills	-2,500	-4,050	-6,850	-34,950
Other	-147	-24	-4,489	1,904
Subtotal	-901	-1,596	18,936	497
Less:				
Government's holding of unmatured debt	106	165	-175	-178
Total unmatured debt transactions	-795	-1,431	18,761	319

Note: Unmatured debt payable in foreign currencies is now included as part of unmatured debt transactions and not foreign exchange transactions. This is consistent with the *Annual Financial Report* for 1995-96.

Table 6

Cash, unmatured debt and debt balances

	at January 31	
	1996	1997
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	3,032	2,042
In foreign currencies	47	34
Total cash balance	3,079	2,076
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	252,180	280,825
Canada Savings Bonds	32,005	34,168
Treasury bills	157,600	131,150
Other	4,011	3,785
Subtotal	445,796	449,928
Less:		
Government's holdings of unmatured debt	1,169	1,212
Total	444,627	448,716
Payable in foreign currencies		
Marketable bonds	11,097	12,257
Notes and loans	0	2,099
Canada bills	4,034	6,795
Subtotal	15,131	21,151
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	459,758	469,867

Note: Numbers in this newsletter may not add due to rounding.

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March 1997

The Fiscal Monitor

A Publication of the Department of Finance

Financial results for February 1997

Deficit declines $1.8 billion in February 1997

The deficit in February 1997 was estimated at $0.5 billion, down $1.8 billion from February 1996. The year-over-year improvement primarily reflected higher budgetary revenue (up $1.4 billion) and lower program spending (down $0.3 billion) and public debt charges (down $0.1 billion).

Most of the increase in budgetary revenues reflected the timing of receipts and one-time factors.

- Personal income tax collections were up $0.7 billion, primarily due to the timing of receipts between February 1997 and March 1997.
- Goods and services tax collections were up $0.2 billion, as refunds are lagging behind the growth in gross collections. The increase in other excise taxes and duties ($0.1 billion) was attributable to the reclassification of the air transport tax, effective April 1996, to budgetary revenues from an offset to program spending. This change has no effect on the deficit as it raises revenues and spending by an equivalent amount.
- Employment insurance (EI) premiums were up ($0.3 billion), largely due to the impact of changes to the base on which premiums are levied.

The decline in program spending was spread throughout most major components, primarily reflecting the impact of the 1994 and 1995 budget measures. Defence spending was up somewhat, reflecting the timing of payments.

The decline in public debt charges was attributable to the impact of lower interest rates.

Deficit for April 1996 to February 1997 down by $15.5 billion

Over the April 1996 to February 1997 period, the deficit, at $7.8 billion, was $15.5 billion lower than in the same period in 1995-96.

Budgetary revenues were up $9.0 billion or 7.7 per cent, on a year-over-year basis. However, about $5 billion of the $9 billion increase in budgetary revenues was attributable to one-time factors, with the result that the underlying year-over-year increase in revenues is about 3.5 per cent. This increase is in line with the 1996 increase in nominal income of 2.8 per cent.

- Personal income tax collections were up 6.1 per cent or $3.5 billion. Half of this increase relates to taxes paid on filing, net of refunds, and quarterly installment payments. Taxes paid on filing in 1996-97 pertain to developments affecting the 1995 taxation year. The sharp increase in quarterly installment payments was largely due to more taxpayers being required to make tax installment payments on income not subject to withholding. In previous years, such tax liabilities would be remitted at the time of final tax filing. As such, the higher installment payments represent a one-time acceleration of taxes from 1997-98 into 1996-97. In contrast, deductions from employment income were up only about 2 per cent, in line with the growth in wages and salaries during 1996.

- Corporate income tax collections were up 11.0 per cent, or $1.3 billion. However, most of this increase reflects timing factors relating to the monthly remittance procedures for corporations. Corporations are required to file monthly installments based on either last year's tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to file their tax return, with any amounts outstanding. As most large corporations' taxation year corresponds to the calendar year, over 25 per cent of corporate income tax collections are received in the month of March. Although corporate tax liabilities for the year as a whole are expected to be about the same as in 1995, installment payments during the year were significantly higher than during 1995-96, thereby suggesting a lower March 1997 settlement period.

- Employment insurance premiums were up 5.4 per cent, or $0.9 billion. This increase was attributable to changes to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings, effective January 1, 1997. This results in a one-time increase in receipts in the final quarter of 1996-97. This change does not affect the amount paid by employees and employers for the calendar year as a whole. Those employees earnings up to the annual maximum insurable earnings are not affected, while those earning above the maximum will pay more of their premium liability earlier in the calendar year and less at the end.

- Goods and services tax collections were up 4.9 per cent, or $0.7 billion. Over half of this increase occurred in April 1996, reflecting abnormally low collections in April 1995, rather than strength in collections in 1996. In addition, refunds are lagging behind the growth in gross collections, which could adversely affect net collections in months to come.

- The increase in sales and excise taxes (up 16.2 per cent, or $1.0 billion) was largely attributable to a classification change related to the air transport tax. Prior to April 1996, receipts from this tax were netted against costs of running the airports and included as part of program spending. With the sale of the Air Navigation System, these receipts are now part of sales and excise taxes. Since this reclassification affects both revenues and program spending, the deficit is unaffected.

- Non-tax revenues were up 23.5 per cent, or $1.3 billion. All of this increase is more than accounted for by the proceeds from the sale of the Air Navigation System and the inclusion of the second tranche of seignorage gains related to the introduction of the $2 coin (the first tranche was included in March 1996).

Program spending declined by $4.8 billion or 5.0 per cent. The decline in program spending primarily reflected the impact of the restraint measures introduced in the 1994 and 1995 budgets.

- Major transfers to persons were down $0.3 billion, or 1.1 per cent. All of this decline was attributable to lower employment insurance benefits, primarily due to the impact of reform measures. Elderly benefit payments were up 2.7 per cent.

- In the February 1995 budget, the government announced a major restructuring of its transfers to the provinces, through the introduction of the Canada Health and Social Transfer (CHST). This block-funded transfer replaced the Canada Assistance Plan and Established Programs Financing programs. In order to give provinces time to plan for these changes, total entitlements, including both tax points and cash transfers – the most appropriate measure of federal support – were not affected in 1995-96. As a result, total entitlements under the CHST, equalization, and other transfers to provinces and territories increased by 1.3 per cent in 1995-96. These entitlements,

however, were reduced by 7.7 per cent in 1996-97. This is smaller than the reduction in cash transfers, which are down 16.1 per cent, or $4.0 billion to the end of February 1997, compared to the same period last year. The larger reduction in cash transfers is because the value of the tax point transfer – which makes up a large part of the entitlement – grows in line with the growth in the applicable tax basis. The tax point transfer involves the transfer of federal "tax room" to the provinces, and allows the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being the residual, the cash transfer, which affects program spending, is determined not only by the change in entitlements, but also by the growth in the value of the tax point transfer.

- Excluding major transfers to persons and other levels of government, all other spending declined by $0.4 billion, or 1.0 per cent. Adjusting these results to remove the impact of the April 1996 reclassification of the air transport tax to budgetary revenues results in a decline of 2.6 per cent. This component includes subsidy and transfer payments, payments to Crown corporations, and the operating and capital costs of departments, including defence. Unlike the reduction to entitlements to other levels of government, which took effect in 1996-97, this component of program spending declined by 10 per cent in 1995-96, reflecting the major reductions announced in the 1994 and 1995 budgets. With the major reductions to this compoment of spending coming earlier in the process, the rate of decline moderates in 1996-97.

Public debt charges were down $1.7 billion, or 4.0 per cent. Fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

Financial requirements, excluding foreign exchange transactions, provided the government with a net source of funds of about $1 billion to the end of February 1997. This was attributable to the improvement in the deficit and a somewhat higher net source of funds from non-budgetary transactions. Exchange fund transactions resulted in a net requirement of $5.5 billion, with the result that total financial requirements amounted to $4.5 billion, down $12.2 billion from the same period in 1995-96. This was financed through unmatured debt transactions of $0.8 billion and a drawing down of cash balances ($3.7 billion).

The February 1997 budget stated that the deficit for 1996-97 would be no higher than $19 billion, down $5.3 billion from the original deficit target of $24.3 billion. The financial results to the end of February 1997 confirm that the final outcome will be below $19 billion. Still to come are the financial results for March 1997 and the end-of-year accounting period adjustments. Audited deficit results for 1996-97 will be available in the fall of 1997 with the release of the *Annual Financial Report*.

Table 1

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	February		April to February	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
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Revenues	10,509	11,906	115,925	124,889
Program spending	-9,134	-8,820	-96,542	-91,764
Operating balance	1,375	3,086	19,383	33,125
Public debt charges	-3,686	-3,571	-42,664	-40,952
Deficit	-2,311	-485	-23,281	-7,827
Non-budgetary transactions	2,222	3,252	8,119	8,800
Financial requirements (excluding foreign exchange transactions)	-89	2,767	-15,162	973
Foreign exchange transactions	948	-472	-1,556	-5,466
Financial requirements	859	2,295	-16,718	-4,493
Unmatured debt transactions	1,602	496	20,362	815
Change in cash balances	2,461	2,791	3,644	-3,676

Note: Data compiled by the Receiver General of Canada.

[1] (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

Detailed statement of budgetary transactions – Revenues

	February		April to February	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
Income taxes				
Personal income tax	4,561	5,257	56,773	60,226
Corporate income tax	1,566	1,778	11,689	12,971
Other income tax revenue	148	246	1,779	2,275
Total income tax	6,275	7,281	70,241	75,472
Employment insurance contributions	1,468	1,791	17,014	17,934
Excise taxes and duties				
Goods and services tax	1,453	1,609	14,197	14,893
Customs import duties	192	204	2,528	2,299
Sales and excise taxes	571	676	6,394	7,432
Total excise taxes/duties	2,216	2,489	23,119	24,624
Total tax revenues	9,959	11,561	110,374	118,030
Non-tax revenues	550	345	5,551	6,859
Total budgetary revenues	10,509	11,906	115,925	124,889

Table 3

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	February		April to February	
	1996	1997	1995-96	1996-97
		(in millions of dollars)		
Hprn emptbr aoin et cv				
Persons				
Elderly benefits	1,774	1,819	19,242	19,754
Employment insurance benefits	1,363	1,133	12,037	11,176
Total	3,137	2,952	31,279	30,930
Other levels of government				
Canada Health and Social Transfer	1,336	1,267	17,545	13,860
Fiscal transfers	835	788	9,164	8,872
Alternative Payments for Standing Programs	-163	-166	-1,793	-1,845
Total	2,008	1,889	24,916	20,887
Other				
Agricultural subsidies	106	136	545	814
Indian and Inuit programs	210	210	3,126	3,207
Regional development	103	58	520	426
Science and technology	148	141	1,113	963
International assistance	242	192	1,505	1,451
Veterans pensions and allowances	113	114	1,271	1,250
Other	491	654	4,699	4,540
Total	1,413	1,505	12,779	12,649
Total transfers	6,558	6,346	68,974	64,468
frao in e t c th pcg ntlcpbcpr xcne	429	314	4,167	3,709
yb i pr xn ltrn utlrb xr sti3b inu x Cpie				
Defence	749	782	8,491	8,024
All other departmental expenditures	1,398	1,378	14,910	15,563
Total	2,147	2,160	23,401	23,587
Hc rst bpc lpro ti3b inu x Cpie	9,134	8,820	96,542	91,764
fC 0sxltui0 tldr p l i e	3,686	3,571	42,664	40,952
Hc rst0Cu li rpa ti3b inu x Cpie	12,820	12,391	139,206	132,716

Table 4

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	February		April to February	
	1996	1997	1995-96	1996-97
		(in millions of dollars)		
6c rne Axn2e oin etrn utru 2rn lie				
Crown corporations	148	23	3,556	878
Other	-70	-5	-257	-411
Total	78	18	3,299	467
• bilxmxiutbCpbceit r l lc Cn e				
Canada Pension Plan Account	633	509	-181	-350
Superannuation accounts	-236	-232	5,835	6,181
Other	94	143	296	441
Total	491	420	5,950	6,272
y d ipt prn erl xcn et	1,653	2,814	-1,130	2,061
Hc rst ncn '0Cu l i rpat prne rl xcn e	2,222	3,252	8,119	8,800

Table 5

Foreign exchange and unmatured debt transactions

	February		April to February	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
Foreign exchange transactions				
Net international reserves	948	-472	-1,556	-5,466
Unmatured debt transactions				
Marketable bonds	-1,449	3,600	28,207	34,403
Canada Savings Bonds	-309	-405	309	2,335
Treasury bills	2,800	-2,750	-4,050	-37,700
Other	479	-84	-4,010	1,820
Subtotal	1,521	361	20,456	858
Less:				
Government's holding of unmatured debt	81	135	-94	-43
Total unmatured debt transactions	1,602	496	20,362	815

Note: Unmatured debt payable in foreign currencies is now included as part of unmatured debt transactions and not foreign exchange transactions. This is consistent with the *Annual Financial Report* for 1995-96.

Table 6

Cash, unmatured debt and debt balances

	at end of February	
	1996	1997
	(in millions of dollars)	
Cash balances at end of period		
In Canadian dollars	5,298	4,862
In foreign currencies	241	5
Total cash balance	5,539	4,867
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	252,062	284,425
Canada Savings Bonds	31,696	33,763
Treasury bills	160,400	128,400
Other	3,479	3,469
Subtotal	447,637	450,057
Less:		
Government's holdings of unmatured debt	1,088	1,076
Total	446,549	448,981
Payable in foreign currencies		
Marketable bonds	9,698	12,257
Notes and loans	0	2,099
Canada bills	5,045	7,026
Subtotal	14,743	21,382
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	461,292	470,363

Note: Numbers in this newsletter may not add due to rounding.

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April 1997

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for March 1997

Deficit of $1.8 billion reported in March 1997

The deficit for March 1997 was $1.8 billion, up $0.6 billion from March 1996. This year-over-year increase was largely attributable to higher personal income tax refunds ($0.7 billion), which depressed net personal income tax collections, lower corporate income tax collections ($0.3 billion) and the inclusion of the funding for the Canada Foundation for Innovation ($0.8 billion), as announced in the February 1997 budget. However, offsetting much of the impact of these factors on the deficit were unusually high goods and service tax (GST) collections ($0.8 billion), primarily reflecting the fact that last year a significant portion of GST revenues that accrued in March were reported in the end-of-year accounting period.

Deficit for 1996-97

Year to date

Over the period April 1996 to March 1997, the deficit stood at $9.6 billion, down $14.8 billion from the same period in 1995-96.

- Budgetary revenues were up $8.9 billion or 6.9 per cent, on a year-over-year basis. Over half of this improvement was due to special factors, such as the higher personal income installment payments, the acceleration of employment insurance premium payments, the sale of the air navigation system, and the timing of GST collections.
- Program spending was down $4.0 billion or 3.8 per cent, primarily reflecting the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down by $1.9 billion, or 4.1 per cent. This reflected declines in interest rates, especially short-term rates.

Final results to come in the fall

The financial results for the April 1996 to March 1997 period are not the final results for the 1996-97 fiscal year. Still to come are the regular end-of-year accounting adjustments.

- Consistent with government accounting principles, these "end-of-year accounting" adjustments incorporate increases to program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1996-97. Adjustments are also made to budgetary revenues, primarily to reflect cash-in-transit at year end.
- The deficit impact of these "end-of-year accounting" adjustments over the last three fiscal years has ranged from $4 billion to $6½ billion.
- The results to the end of March 1997 suggest that the deficit for the year as a whole will be no higher than $16 billion.

The final audited financial results will be available in the *Annual Financial Report*, scheduled for release in the fall of 1997.

Table 1

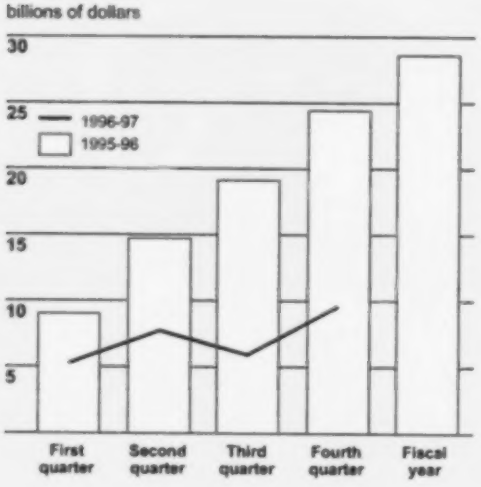
Summary statement of transactions

	March		April to March	
	1996	1997	1995-96	1996-97
	(millions of dollars)			
Budgetary transactions				
Revenues	12,507	12,422	128,432	137,312
Program spending	-9,696	-10,434	-106,239	-102,198
Operating surplus	2,811	1,988	22,193	35,114
Public debt charges	-3,991	-3,798	-46,654	-44,750
Deficit/surplus	-1,180	-1,810	-24,461	-9,636
Non-budgetary transactions	-586	1,967	7,532	10,768
Financial requirements/source (excluding foreign exchange transactions)	-1,766	157	-16,929	1,132
Foreign exchange transactions	-3,182	-2,058	-4,738	-7,524
Total financial requirements	-4,948	-1,901	-21,667	-6,392
Unmatured debt transactions	8,168	6,377	28,533	7,192

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal deficit 1995-96 and 1996-97

Year to date



Budgetary revenues up $8.9 billion

Over the April 1996 to March 1997 period, budgetary revenues were up $8.9 billion or 6.9 per cent, on a year-over-year basis. However, more than half of this increase was attributable to one-time factors, with the result that the underlying year-over-year increase in revenues is about 3 per cent. This increase is in line with the 1996 increase in nominal income of 2.8 per cent.

- Personal income tax collections were up 4.6 per cent or $2.8 billion. Over half of this increase relates to taxes paid on filing and quarterly installment payments. Taxes paid on filing in 1996-97 pertain to developments affecting the 1995 taxation year. The sharp increase in quarterly installment payments was largely due to more taxpayers being required to make tax installment payments on income not subject to withholding. In previous years, such tax liabilities would be remitted at the time of final tax filing. As such, the higher installment payments represent a one-time acceleration of taxes from 1997-98 into 1996-97. Partially offsetting the impact of these factors were higher refunds processed in March 1997 relating to the 1996 taxation year, resulting from higher average refunds rather than more returns being processed. In contrast, deductions from employment income were up only about 2 per cent, in line with the growth in wages and salaries during 1996.

Table 2

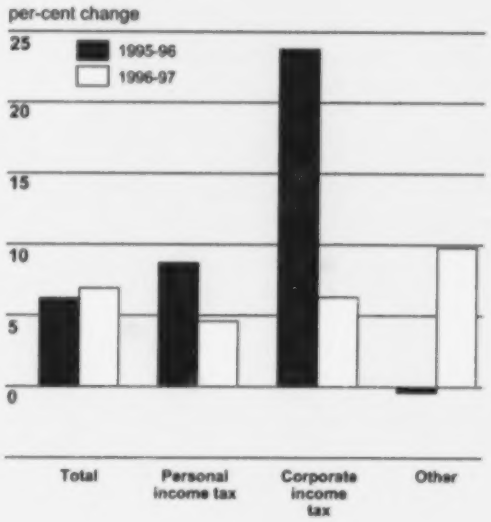
Budgetary revenues

	March		April to March		
	1996	1997	1995-96	1996-97	Per cent change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	3,650	2,948	60,423	63,175	4.6
Corporate income tax	3,459	3,131	15,148	16,102	6.3
Other	150	175	1,928	2,120	0.7
Total income tax	7,259	6,254	77,499	81,726	5.5
Employment insurance premiums	1,466	1,866	18,480	19,800	7.1
Excise taxes and duties					
Goods and services tax	1,014	1,765	15,211	16,658	9.5
Customs import duties	276	204	2,805	2,503	-10.8
Other excise taxes/duties	702	595	7,095	8,028	13.2
Total excise taxes and duties	1,992	2,564	25,111	27,189	8.3
Total tax revenues	10,717	10,684	121,090	128,715	6.3
Non-tax revenues	1,790	1,738	7,342	8,597	17.1
Total budgetary revenues	12,507	12,422	128,432	137,312	6.9

- Corporate income tax collections were up 6.3 per cent, or $1.0 billion. About 25 per cent of net collections are received in March, given the remittance regulations for large corporations. Although March 1997 collections were only marginally lower than those reported in March 1996, the high monthly installment payments during 1996-97 resulted in an increase in net collections for the year as whole. The growth in net collections to date significantly exceeded the reported growth in corporate tax liabilities which, for 1996, was about the same as in 1995.
- Employment insurance premiums were up 7.1 per cent, or $1.3 billion. However, most of this increase was attributable to changes to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings, effective January 1, 1997. This results in a one-time increase of about $1 billion in receipts in the final quarter of 1996-97. This change does not affect the amount paid by employees and employers for the calendar year as a whole. Those employees earning up to the annual maximum insurable earnings are not affected, while those earning above the maximum will pay more of their premium liability earlier in the calendar year and less at the end.
- Net GST collections were up 9.5 per cent, or $1.4 billion. Over half of this increase occurred in March 1997, primarily reflecting the timing of gross

Budgetary revenues
1995-96 and 1996-97

April to March
Year-over-year growth



receipts. The remittance date for filing is the last day of the month or the first working date following a holiday. In March 1996, the filing date fell on a Sunday, with the result that a large portion of the March 1996 collections were received in early April 1996 and recorded in the 1995-96 end-of-year accounting period. Although the filing date fell on Easter Monday this year, most financial institutions were open, such that collections were received on that day. As a result, net collections were up 74 per cent in March 1997 compared to March 1996. Once the end-of-year accounting periods are included, the annual growth in GST collections should be more in line with the growth in domestic demand of about 3 per cent.

- The increase in sales and excise taxes (up 13.2 per cent, or $0.9 billion) was largely attributable to a classification change related to the air transport tax. Prior to April 1996, receipts from this tax were netted against costs of running the airports and netted against program spending. With the sale of the air navigation system, these receipts are now part of sales and excise taxes. Since this reclassification affects both revenues and program spending, the deficit is unaffected by this change.
- Non-tax revenues were up 17.1 per cent, or $1.3 billion. However, this increase is more than accounted for by the net proceeds from the sale of the air navigation system.

Budgetary expenditures down $5.9 billion

Over the April 1996 to March 1997 period, total budgetary expenditures, which include both public debt charges and program spending, were down $5.9 billion, or 3.9 per cent. This decline was due to both lower public debt charges and lower program spending.

Public debt charges down $1.9 billion

Public debt charges were down $1.9 billion or 4.1 per cent. This decline reflected lower interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

Program spending down $4.0 billion

Program spending declined by $4.0 billion, or 3.8 per cent in the April 1996 to March 1997 period, compared to the same period last year. This decline primarily reflects the impact of the 1994 and 1995 budget measures to reduce and restructure federal government spending, affecting all major components of program spending.

- Major transfers to persons (elderly and employment insurance benefits) were down $0.5 billion or 1.5 per cent. All of this decline was due to lower employment insurance benefits, primarily due to the impact of reform measures. Elderly benefits were up 2.7 per cent, reflecting increases in the number of people receiving benefits and increases in the average benefit, which is fully indexed to changes in the consumer price index.
- In the February 1995 budget, the government announced that, on April 1, 1996, the Canada Health and Social Transfer (CHST) would replace the Canada Assistance Plan and Established Programs Financing. In order to give provinces time to plan for these changes, total entitlements – the most appropriate measure of federal support – were largely unaffected in 1995-96. As a result, total entitlements under the CHST, equalization and other transfers to provinces and territories increased by 1.3 per cent in 1995-96. In 1996-97, total transfer entitlements were reduced by 7.7 per cent in 1996-97. It is important to note that transfers are delivered to provincial governments in two fashions – tax transfers and cash transfers. The tax transfer component represents the value of "tax room" which the federal government made available to provincial governments by reducing federal tax rates so that provinces could increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax transfer component continued to increase at a relatively rapid 5.1-per-cent rate in 1996-97, reflecting the growth in the applicable tax bases. To the end of March 1997, the cash transfer, which is the difference between the total entitlement and an increasing value in the tax point transfer, consequently declined by 16.7 per cent. This decline overstates the decline expected for the fiscal year as a whole. In 1995-96, payments under the

Budgetary expenditures 1995-96 and 1996-97

April to March
Year-over-year growth

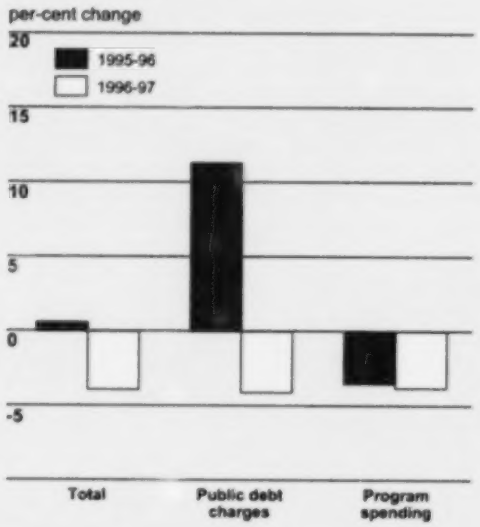


Table 3

Budgetary expenditures

	March		April to March		
	1996	1997	1995-96	1996-97	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,781	1,841	21,023	21,594	2.7
Employment insurance benefits	1,403	1,176	13,441	12,352	-8.1
Total	3,184	3,017	34,464	33,946	-1.5
Other levels of government					
Canada Health and Social Transfer	1,169	1,051	18,713	14,911	-20.3
Fiscal transfers	1,000	661	10,164	9,533	-6.2
Alternative payments for standing programs	-163	-167	-1,956	-2,012	2.8
Total	2,006	1,545	26,921	22,432	-16.7
Subsidies and other transfers					
Agricultural subsidies	125	90	670	904	34.9
Indian and Inuit programs	188	162	3,314	3,369	1.7
Regional development	92	126	611	552	-9.7
Science and technology	173	143	1,286	1,106	-14.0
International assistance	275	316	1,781	1,755	-1.5
Veterans' pensions/allowances	115	113	1,385	1,363	-1.6
Other	502	2,074	5,200	6,615	27.2
Total	1,469	3,025	14,246	15,673	10.0
Total transfers	6,659	7,587	75,632	72,053	-4.7
Payments to Crown corporations					
Canadian Broadcasting Corporation	73	100	1,171	997	-14.8
Canada Mortgage and Housing Corporation	193	197	1,981	1,898	-4.2
Other	167	108	1,448	1,220	-15.8
Total	433	405	4,600	4,115	-10.5
Operating and capital expenditures					
Defence	871	687	9,362	8,712	-6.9
All other departmental expenditures	1,733	1,755	16,645	17,318	4.0
Total	2,604	2,442	26,007	26,030	0.1
Total program expenditures 9,696		10,434	106,239	102,198	-3.8
Public debt charges	3,991	3,798	46,654	44,750	-4.1
Total budgetary expenditures	13,687	14,232	152,893	146,948	-3.9

Table 4

The deficit and financial source/requirements

	March		April to March	
	1996	1997	1995-96	1996-97
	(millions of dollars)			
Deficit	-1,180	-1,810	-24,461	-9,636
Loans, investments and advances				
Crown corporations	-189	-4	3,367	874
Other	-64	-54	-321	-465
Total	-253	-54	3,046	409
Specified purpose accounts				
Canada Pension Plan Account	435	467	254	117
Superannuation accounts	2,545	2,570	8,380	8,751
Other	210	87	506	528
Total	3,190	3,124	9,140	9,396
Other transactions	-3,523	-1,099	-4,654	963
Total non-budgetary transactions	-586	1,967	7,532	10,768
Financial source/requirements (excluding foreign exchange transactions)	-1,766	157	-16,929	1,132

Table 5

Financial source/requirements, foreign exchange and unmatured debt transactions

	March		April to March	
	1996	1997	1995-96	1996-97
	(millions of dollars)			
Financial requirements (-) / source (+) (excluding foreign exchange)	-1,766	157	-16,929	1,132
Foreign exchange transactions				
Net international reserves	-3,182	-2,058	-4,738	-7,524
Total financial requirements/source	-4,948	-1,901	-21,667	-6,392
Unmatured debt transactions				
Marketable bonds	366	-1,989	28,574	32,414
Canada Savings Bonds	-279	-259	31	2,076
Treasury bills	5,700	7,000	1,650	-30,700
Other	2,249	1,431	-1,761	3,250
Subtotal	8,036	6,183	28,494	7,040
Less:				
Government's holding of unmatured debt	132	194	39	152
Total unmatured debt transactions payable in Canadian dollars	8,168	6,377	28,533	7,192
Change in cash balance	3,220	4,476	6,866	800

Table 6

Cash, unmatured debt and debt balances: at March 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	8,468	9,254
In foreign currencies	290	89
Total cash balance	8,758	9,343
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	252,613	282,436
Canada Savings Bonds	31,417	33,503
Treasury bills	166,100	135,400
Other	3,478	3,467
Subtotal	453,608	454,806
Less:		
Government's holdings of unmatured debt	955	883
Total	452,653	453,923
Payable in foreign currencies		
Marketable bonds	9,501	12,257
Notes and loans	310	2,121
Canada bills	6,985	8,436
Subtotal	16,796	22,814
Less:		
Government's holdings of unmatured debt	0	0
Total unmatured debt	469,449	476,737

Youth Allowances Recovery program were netted against this component in the end-of-year accounting period. This fiscal year, they were received in March, thereby overstating the overall year-over-year decline. For the year as a whole, cash transfers are expected to decline by 14½ per cent.

- Excluding major transfers to persons and other levels of government, all other spending, or direct program spending, increased by $1 billion, or 2.2 per cent. Of this increase, $0.7 billion relates to the reclassification of the air transport tax to budgetary revenues. Putting both years on a comparable basis reduces the underlying growth rate to 0.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of departments, including Defence. Unlike the reduction to entitlements to other levels of government, which took effect in 1996-97, this component of program spending declined by 10 per cent in 1995-96, reflecting the major reductions announced in the 1994 and 1995 budgets. In the February 1997 budget, an increase of 1.4 per cent was assumed for this component.
- Within direct program spending, subsidies and other transfers were up $1.4 billion. Most of this increase was attributable to the commitment made in the February 1997 budget to invest $0.8 billion in the Canada Foundation for Innovation. Legislation creating the Foundation was introduced in March and Royal Assent has since been received. The increase in agricultural transfers primarily reflected higher matching contributions to the Net Income Stabilization Account. Payments to Crown corporations declined $0.5 billion, while defence spending was down $0.7 billion. All other departmental expenditures were up $0.7 billion, but this was entirely attributable to the reclassification of the air transport tax.

Financial source (surplus) of $1.1 billion reported in 1996-97

Financial source/requirements measure the difference between cash coming in to the government and cash going out. Financial source/requirements – for the fiscal year as a whole – are lower than the deficit, as they also include non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities. Unlike the deficit, financial source/requirements are largely unaffected by the end-of-year accounting adjustments.

Non-budgetary transactions in the April 1996 to March 1997 period resulted in a net source of funds amounting to $10.8 billion, compared to a net source of $7.5 billion recorded in the corresponding period of 1995-96. The results to date were affected by extraordinary receipts. Final installment payments relating to the 1995 sale of Canadian National Railways and shares in Petro Canada resulted in the receipt of about $2 billion in 1996-97. Under the government's accounting principles, the deficit impact of these sales was recorded in 1995-96, when the sales occurred. These final installment payments, therefore, had no impact on the 1996-97 deficit but provided additional cash in 1996-97.

With a deficit of $9.6 billion and a net source of funds from non-budgetary transactions of $10.8 billion, there was a net financial source (surplus), excluding foreign exchange transactions, of $1.1 billion, compared to a net requirement of $16.9 billion in 1995-96. This is the first net financial source (surplus) since 1969-70. However, as noted above, there were a number of special one-time factors, which impacted favourably on the deficit and non-budgetary transactions during 1996-97.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency. In 1996-97, foreign exchange transactions resulted in a net requirement of $7.5 billion, compared to a net requirement of $4.7 billion in 1995-96.

As a result, total financial requirements, including foreign exchange transactions, were $6.4 billion in 1996-97, compared to $21.7 billion in 1995-96.

To finance these requirements, the government borrows from the private credit markets and/or draws down its cash reserves. In 1996-97, the government's net new borrowings from the private credit markets (unmatured debt transactions) amounted to $7.2 billion, compared to $28.5 billion in 1995-96. Cash balances were increased slightly ($0.8 billion), to reach $9.3 billion by March 31, 1997.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	38,048
Less:					
Refunds and rebates	11,330	12,138	14,271	17,112	18,874
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799
Net GST	15,168	14,868	15,696	16,787	16,374
GST penalties and interest received	19	71	90	129	135
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835

Figures to 1995-96 are from the *Public Accounts of Canada.*

Note: Numbers in this newsletter may not add due to rounding.

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May 1997

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 1997

Deficit declines by $0.7 billion in April 1997

The deficit in April 1997 was estimated at $3.4 billion, down $0.7 billion from April 1996. Most of this year-over-year decline in the deficit was attributable to higher budgetary revenues, up $0.7 billion. Program spending was marginally lower while public debt charges were up slightly.

The increase in budgetary revenues was primarily due to higher employment insurance premiums (up $0.4 billion), personal income tax collections (up $0.3 billion) and corporate income tax collections (up $0.3 billion). In contrast, excise taxes and duties and non-tax revenues were down on a year-over-year basis.

- The increase in employment insurance premiums was largely attributable to an acceleration in the payment of the premium liability due to changes to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings, effective January 1, 1997. This change does not affect the amount paid by employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- Most of the increase in personal income tax collections was due to higher taxes paid on filing and lower refunds, relating to the 1996 taxation year. Higher corporate profits account for the increase in corporate income tax collections.
- The decline in excise taxes and duties was largely due to lower GST collections, offset in part by higher other excise taxes and duties. Net GST collections were a negative $249 million, down $233 million from April 1996. Net GST collections are the lowest in April of each year. This is largely due to the fact that most GST collections are due at the end of each month, but are not normally deposited in the government's bank accounts until the first few days of the following month. During the course of the year, these monies are largely reported in the month in which they are received. However, monies remitted with respect to March, but not received until April, are credited to the previous fiscal year as part of the end-of-year accounting adjustments, thereby dampening overall collections in April. In addition, the low-income GST credit is paid in April, thereby further dampening net collections in that month.

Program spending was down slightly in April 1997 compared to April 1996.

- Declines were recorded in major transfers to persons, major transfers to other levels of government, payments to Crown corporations and to defence. These reductions primarily reflect actions taken in previous budgets to control spending and reduce the deficit.
- Dampening the impact of these declines were increases in other transfers and in all other departmental spending – primarily the operating costs of governments. These increases largely reflect timing factors, which should be reversed in coming months. For example, the increase in all other departmental spending was attributable to there being three government employee pay periods in April 1997, whereas there were only two in April 1996. This accounts for more than all of the increase in this component of program spending. In May 1996, there were three pay periods, whereas there were only two in May 1997.

Public debt charges were up slightly, as the impact of lower interest rates was offset by a slight increase in the overall stock of debt.

Table 1

Summary statement of transactions

	April	
	1996	1997
	(millions of dollars)	
Budgetary transactions		
Revenues	7,653	8,337
Program spending	-7,971	-7,952
Operating balance	-318	385
Public debt charges	-3,741	-3,792
Deficit/surplus	-4,059	-3,407
Non-budgetary transactions	-301	412
Financial requirements/source (excluding foreign exchange transactions)	-4,360	-2,995
Foreign exchange transactions	-1,906	3,589
Total financial requirements	-6,266	594
Unmatured debt transactions	-349	-5,092

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	April		
	1996	1997	Per cent change
	(millions of dollars)		(%)
Income taxes			
Personal income tax	4,528	4,806	6.1
Corporate income tax	550	811	47.5
Other	204	272	33.1
Total income tax	5,282	5,889	11.5
Employment insurance contributions	1,488	1,844	23.9
Excise taxes and duties			
Goods and services tax	-16	-249	N.A.
Customs import duties	94	22	N.A.
Other excise taxes/duties	298	463	55.9
Total excise taxes and duties	376	237	-36.7
Total tax revenues	7,146	7,970	11.6
Non-tax revenues	507	367	-27.8
Total budgetary revenues	7,653	8,337	8.9

Table 3
Budgetary expenditures

	April		
	1996	1997	Per cent change
	(millions of dollars)		(%)
Transfer payments to:			
Persons			
Elderly benefits	1,705	1,790	5.0
Employment insurance benefits	1,283	1,134	-11.6
Total	2,988	2,924	-2.1
Other levels of government			
Canada Health and Social Transfer	1,254	1,022	-18.5
Fiscal transfers	975	988	1.4
Alternative Payments for Standing Programs	-167	-178	6.6
Total	2,062	1,832	-11.1
Other			
Agriculture		4	N.A.
Foreign Affairs	59	49	-16.9
Human Resources Development	91	52	-42.9
Indian and northern development	707	716	1.3
Industry & regional development	64	83	29.7
Veterans Affairs	109	112	2.9
Other	194	301	55.4
Total	1,224	1,317	7.6
Total transfers	6,274	6,073	-3.2
Payments to Crown corporations			
Canadian Broadcasting Corporation	132	112	-15.2
Canada Mortgage and Housing Corporation	129	139	8.2
Other	138	137	-1.2
Total	399	388	-2.8
Operating and capital expenditures			
Defence	392	355	-9.4
All other departmental expenditures	906	1,136	25.4
Total	1,298	1,491	14.9
Total program expenditures	7,971	7,952	-0.2
Public debt charges	3,741	3,792	1.4
Total budgetary expenditures	11,712	11,744	0.3

Table 4
The deficit and financial requirements

	April	
	1996	1997
	(millions of dollars)	
Deficit/surplus	-4,059	-3,407
Loans, investments and advances		
Crown corporations	58	-253
Other	-37	-43
Total	21	-296
Specified purpose accounts		
Canada Pension Plan Account	532	513
Superannuation accounts	-163	-345
Other	-72	-41
Total	297	127
Other transactions	-619	581
Total non-budgetary transactions	-301	412
Financial requirements (excluding foreign exchange transactions)	-4,360	-2,995
Foreign exchange transactions	-1,906	3,589
Total financial requirements	-6,266	594

Table 5

Financial requirements and unmatured debt transactions

	April	
	1996	1997
	(millions of dollars)	
Total financial requirements/source	-6,266	594
Unmatured debt transactions: payable in Canadian dollars		
Marketable bonds	2,800	–
Canada Savings Bonds	-270	-289
Treasury bills	3,600	-3,700
Other	-1	-1
Less government's holdings	150	143
Total Canadian currency	-921	-3,847
Unmatured debt transactions: payable in foreign currencies		
Marketable bonds	–	–
Notes and loans	–	–
Canada bills	-39	-940
Canada notes	611	-305
Total foreign currencies	572	-1,245
Total unmatured debt transactions	-349	-5,092
Change in cash balance	-6,615	-4,497

Table 6

Cash, unmatured debt and debt balances: at April 30

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,896	4,836
In foreign currencies	20	5
Total cash balance	1,916	4,841
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	255,565	282,563
Treasury bills	162,500	131,700
Canada Savings Bonds	31,158	33,204
Other	3,477	3,467
Subtotal	452,700	450,934
Less:		
Government's holdings of unmatured debt	802	815
Total	451,898	450,119
Payable in foreign currencies		
Marketable bonds	9,501	12,460
Notes and loans	0	0
Canada bills	6,947	7,496
Canada notes	611	1,816
Total	17,059	21,772
Total unmatured debt	468,957	471,891

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July 1997

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for May 1997

Surplus recorded in May 1997

A surplus of $1.4 billion was recorded in May 1997, compared to a deficit of $0.6 billion in May 1996. As a result, there was a net improvement in the federal government's budgetary position of $2.0 billion on a year-over-year basis. Budgetary revenues were up $0.8 billion (6.8 per cent), while program spending declined $0.8 billion (10.0 per cent). Public debt charges were down $0.4 billion (9.4 per cent).

The increase in budgetary revenues was primarily due to higher personal income tax collections ($0.7 billion), primarily reflecting higher taxes paid on filing relating to the 1996 taxation year, and increased employment insurance premiums (up $0.3 billion), attributable to an acceleration of monthly payments. In contrast, excise taxes and duties were lower (down $0.2 billion) on a year-over-year basis.

The decline in program spending reflected the impact of previous budget actions as well as timing factors. In May 1997, there were two government employee pay periods, whereas in May 1996, there were three. This accounted for about $0.4 billion of the year-over-year decline in program spending.

Deficit for April and May 1997 down $2.6 billion

Over the first two months of the 1997-98 fiscal year, the deficit was estimated at $2.0 billion, down $2.6 billion from the same period last year. This decline in the deficit was attributable to the increasing strength in the economy, the impact of previous budget measures and timing considerations. Budgetary revenues were up $1.4 billion (7.7 per cent), program spending declined $0.8 billion (5.2 per cent), while public debt charges were $0.3 billion lower (4.1 per cent).

Within budgetary revenues, personal income tax collections were up $0.9 billion, employment insurance premiums increased $0.7 billion, while corporate income tax collections increased $0.3 billion. In contrast, excise taxes and duties were down by $0.4 billion, while non-tax revenues declined by $0.1 billion.

- The increase in personal income tax collections reflected both higher taxes paid on filing, relating to the 1996 taxation year, and an increase in deductions from employment income, due to increases in the number of people employed.
- The increase in employment insurance premiums was attributable to timing considerations, which will be reversed over the latter half of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by employees and employers for the calendar year as a whole. However, those earnings above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- The increase in corporate income tax collections was attributable to an increase in corporate profits, in line with the strengthening economy.
- The decline in excise taxes and duties was largely due to lower GST collections. Net GST collections were down $0.3 billion, compared to the same period last year. This decline was attributable to timing considerations, related to end-of-year accounting adjustments and the payment of refunds. Gross collections were up, in line with the growth in domestic demand. Custom import duties were also lower, reflecting the impact of tariff reductions, while other excise taxes and duties were up slightly.

With the exception of other transfer payments, all other major components of program spending were lower in the April and May 1997 period than in the same period last year.

- Major transfers to persons declined $0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in

employment insurance benefits was primarily due to lower average benefits and a decline in beneficiaries, primarily reflecting the impact of reform measures.

- Major transfers to other levels of government were down $0.5 billion. This decline was attributable to the reduction in entitlements under the Canada Health and Social Transfer (CHST), as announced in the February 1995 budget. In order to give provinces time to plan for these reductions, total entitlements – the most appropriate measure of federal support – were largely unaffected in 1995-96. Total entitlements were set at $29.6 billion in 1995-96, up 1 per cent from 1994-95, $26.9 billion in 1996-97 and $25.1 billion in 1997-98. They are being held at this level till 1999-2000. For 2000-01 to 2002-03, these entitlements will grow at an increasing pace. These entitlement are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, which allowed the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which affects program spending, is determined not only by the change in entitlements, but also by the growth in the value of the tax point transfer. As a result, even with no change in entitlements, cash transfers would decline in line with the growth in the value of tax point transfers. Conversely, if the value of the tax point transfer declined, assuming no change in entitlements, the cash component would rise correspondingly. For 1997-98, cash transfers are estimated at $12.5 billion and were expected to fall to $11.8 billion in 1998-99. However, the government has indicated that it would establish a floor whereby over the five-year period – 1998-99 to 2002-03 – cash transfers would never fall below $12.5 billion.
- Excluding major transfers to persons and other levels of government, all other program spending declined by 1.2 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, this component of spending declined by 10 per cent in 1995-96, reflecting the major reductions announced in the 1994 and 1995 budgets. Expenditures on Crown corporations, defence, and all other departmental expenditures were lower over the April and May 1997 period, while other major transfers were up $0.2 billion. This increase primarily reflected the timing of payments.

Public debt charges were down $0.3 billion, or 4.1 per cent. This decline was attributed both to a decline in unmatured, or market, debt (down $0.7 billion) and lower average effective interest rates. This is the first time since the mid 1970s that the stock of unmatured debt has declined on a year-over-year basis. Net public debt, which is the cumulation of deficits and surpluses since Confederation and includes not only unmatured debt but also non-market debt (primarily public sector employee pension liabilities) did increase as there was a deficit over the April and May 1997 period.

Financial source (surplus) of $1.9 billion for April and May 1997

Non-budgetary transactions provided the government with a net source of funds, amounting to $2.1 billion, compared to a source of $0.3 billion in the same period last year. Most of this increase was attributable to a reopening of some bonds, which resulted in a one-time cash gain but has only minor impact on the monthly deficit as such gains are amortized over the life of the bond.

Foreign exchange transactions resulted in a net source of $1.9 billion, compared to a net requirement of $1.0 billion in the same period last year.

As a result, there was a financial source, including foreign exchange transactions, of $1.9 billion in the April and May 1997 period. In the same period last year, there was a net requirement of $1.3 billion.

Caution should be exercised in extrapolating the monthly results to gain an assessment of the possible outcome for the year as a whole. For example, the current increase in employment insurance premiums will be reversed by the end of the calendar year, thereby having no impact on the deficit outcome for the year as a whole. The increase in personal income tax collections due to higher taxes paid on filing, with respect of the 1996 taxation year, is a one-time development and is not repeated in subsequent months. In the fall, the Minister of Finance will present his annual update on economic and fiscal developments. At that time, there will be assessment of current developments on the government's deficit targets.

Table 1
Summary statement of transactions

	May		April – May	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,424	12,202	19,076	20,539
Program spending	-8,147	-7,332	-16,118	-15,284
Operating surplus	3,277	4,870	2,958	5,255
Public debt charges	-3,859	-3,498	-7,600	-7,290
Deficit/surplus	-582	1,372	-4,642	-2,035
Non-budgetary transactions	626	1,649	326	2,063
Financial requirements/source (excluding foreign exchange transactions)	44	3,021	-4,316	28
Foreign exchange transactions	905	-1,698	-1,001	1,891
Total financial requirements/source	949	1,323	-5,317	1,919
Unmatured debt transactions	91	-3,224	-259	-8,317

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	May		April – May		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,612	6,273	10,140	11,079	9.3
Corporate income tax	1,097	1,126	1,647	1,938	17.7
Other	172	138	375	410	9.3
Total income tax	6,881	7,537	12,162	13,427	10.4
Employment insurance premiums	1,521	1,857	3,010	3,701	23.0
Excise taxes and duties					
Goods and services tax	1,664	1,561	1,648	1,312	-20.4
Customs import duties	170	193	264	215	-18.6
Other excise taxes/duties	769	616	1,065	1,079	1.3
Total excise taxes and duties	2,603	2,370	2,977	2,606	-12.5
Total tax revenues	11,005	11,764	18,149	19,734	8.7
Non-tax revenues	419	438	927	805	-13.2
Total budgetary revenues	11,424	12,202	19,076	20,539	7.7

Table 3
Budgetary expenditures

	May		April – May		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,800	1,828	3,505	3,617	3.2
Employment insurance benefits	1,129	933	2,412	2,067	-14.3
Total	2,929	2,761	5,917	5,684	-3.9
Other levels of government					
Canada Health and Social Transfer	1,254	1,013	2,508	2,035	-18.9
Fiscal transfers	720	677	1,694	1,664	-1.8
Alternative Payments for Standing Programs	-169	-178	-336	-355	5.7
Total	1,805	1,512	3,866	3,344	-13.5
Other					
Agriculture	51	12	51	15	-70.6
Foreign Affairs	79	124	137	174	27.0
Human Resources Development	145	140	236	192	-18.6
Indian and Northern Development	298	259	1,005	975	-3.0
Industry & Regional Development	53	93	118	176	49.2
Veterans Affairs	116	116	225	228	1.4
Other	165	241	359	542	50.8
Total	907	985	2,131	2,302	8.0
Total transfers	5,641	5,258	11,914	11,330	-4.9
Payments to Crown corporations					
Canadian Broadcasting Corporation	101	71	233	183	-21.5
Canada Mortgage and Housing Corporation	145	109	274	249	-9.2
Other	62	70	200	207	3.6
Total	308	250	707	639	-9.6
Operating and capital expenditures					
Defence	638	615	1,030	970	-5.8
All other departmental expenditures	1,560	1,209	2,467	2,345	-4.9
Total	2,198	1,824	3,497	3,315	-5.2
Total program expenditures	8,147	7,332	16,118	15,284	-5.2
Public debt charges	3,859	3,498	7,600	7,290	-4.1
Total budgetary expenditures	12,006	10,830	23,718	22,574	-4.8

Table 4
The deficit and financial requirements/source

	May		April – May	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	-582	1,372	-4,642	-2,035
Loans, investments and advances				
Crown corporations	-26	210	32	-43
Other	-73	-26	-110	-30
Total	-98	184	-78	-73
Specified purpose accounts				
Canada Pension Plan Account	754	691	1,286	1,204
Superannuation accounts	-209	-239	-371	-584
Other	17	-31	-53	-72
Total	562	421	862	548
Other transactions	162	1,044	-458	1,588
Total non-budgetary transactions	626	1,649	326	2,063
Financial requirements/source (excluding foreign exchange transactions)	44	3,021	-4,316	28
Foreign exchange transactions	905	-1,698	-1,001	1,891
Total financial requirements/source	949	1,323	-5,317	1,919

Table 5
Financial requirements/source and unmatured debt transactions

	May		April – May	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/source	949	1,323	-5,317	1,919
Unmatured debt transactions: payable in Canadian dollars				
Marketable bonds	500	2,824	3,300	2,824
Canada Savings Bonds	-286	-298	-556	-587
Treasury bills	-300	-5,900	-3,900	-9,600
Other	-1	-2	-2	-3
Less government's holdings	129	113	278	256
Total Canadian currency	42	-3,263	-880	-7,110
Unmatured debt transactions: payable in foreign currencies				
Marketable bonds	–	–	–	–
Notes and loans	–	–	–	–
Canada bills	49	39	10	-902
Canada notes	–	–	611	-305
Total foreign currencies	49	39	621	-1,207
Total unmatured debt transactions	91	-3,224	-259	-8,317
Change in cash balance	1,040	-1,901	-5,576	-6,398

Table 6

Cash, unmatured debt and debt balances: at May 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,981	2,965
In foreign currencies	6	3
Total cash balance	2,987	2,968
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	256,065	285,387
Treasury bills	162,200	125,800
Canada Savings Bonds	30,872	32,906
Other	3,476	3,465
Subtotal	452,613	447,558
Less:		
Government's holdings of unmatured debt	672	702
Total	451,941	446,856
Payable in foreign currencies		
Marketable bonds	9,501	12,460
Notes and loans	0	0
Canada bills	6,996	7,535
Canada notes	922	1,816
Total	17,419	21,811
Total unmatured debt	469,360	468,667

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July 1997

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1997

Budgetary surplus of $1.5 billion recorded in June 1997

A surplus of $1.5 billion was recorded in June 1997, marking the second consecutive month in which a budgetary surplus was recorded – the first time that this has occurred since the late 1970s. As a result, there was a net improvement in the federal government's budgetary position of $2.2 billion on a year-over-year basis. Budgetary revenues were up $1.8 billion (16.3 per cent), while program spending declined $0.1 billion (0.9 per cent). Public debt charges were down $0.3 billion (6.6 per cent).

The increase in budgetary revenues was primarily due to higher personal income tax and goods and services tax (GST) collections, each up $0.5 billion, and increased corporate income tax collections and employment insurance premiums, each up $0.3 billion. The increase in personal income tax collections reflected strong growth in employment income, reflecting the advances in employment. The strong increase in GST collections was primarily attributable to timing considerations, as collections in the first two months were unusually low. The higher corporate income tax collections reflected the continued strength in corporate profits, while the higher employment insurance premiums were largely attributable to the acceleration of monthly payments.

The decline in program spending reflected the impact of previous budget actions. Lower spending was reported in major transfers to other levels of government, payments to Crown corporations and defence. The impact of these declines was partially offset by higher elderly benefit payments, increased subsidy transfers, and the costs incurred by Elections Canada related to the June 1997 federal election. The decrease in public debt charges was attributable to the effect of lower interest rates.

Deficit for April to June 1997 down $4.8 billion

Over the first three months of the 1997-98 fiscal year, the deficit was reported at $0.5 billion, down $4.8 billion from the same period last year. This year-over-year decline in the deficit was largely attributable to the increasing strength in the economy and the impact of previous budget measures. Budgetary revenues were up $3.3 billion (10.9 per cent), program spending declined $0.9 billion (3.8 per cent), while public debt charges were $0.6 billion lower (4.9 per cent).

Financial requirements significantly lower

Financial requirements, excluding foreign exchange transactions, amounted to $483 million in the first three months of 1997-98, compared to a net requirement of $6.7 billion over the same period last year. Foreign exchange transactions provided the government with a net source of funds amounting to $1.0 billion over the April to June 1997 period, compared to a net source of $0.4 billion over the first three months in 1996-97. As a result, there was a total financial source (surplus) of $0.6 billion to date, compared to a net requirement of $6.2 billion over the same period last year. There was a net repayment of unmatured debt of $6.0 billion in the first three months of 1997-98.

Caution should be exercised in extrapolating these monthly results to gain an assessment of the possible outcome for the year as a whole. For example, all of the current increase in employment insurance premiums will be reversed by the end of the calendar year, thereby having no impact on the deficit outcome for the year as a whole.

Table 1

Summary statement of transactions

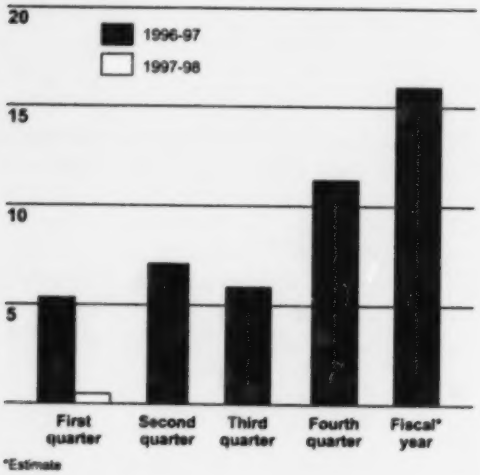
	June		April to June	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,200	13,029	30,276	33,568
Program spending	-8,009	-7,934	-24,127	-23,219
Operating surplus	3,191	5,095	6,149	10,349
Public debt charges	-3,844	-3,592	-11,444	-10,882
Deficit/surplus	-653	1,503	-5,295	-533
Non-budgetary transactions	-1,692	-2,013	-1,366	50
Financial requirements/source (excluding foreign exchange transactions)	-2,345	-510	-6,661	-483
Foreign exchange transactions	1,448	-844	446	1,048
Total financial requirements/source	-897	-1,354	-6,215	565
Unmatured debt transactions	300	2,360	41	-5,957

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal deficit 1996-97 and 1997-98

Year to date

billions of dollars



The increase in personal income tax collections due to higher taxes paid on filing, with respect to the 1996 taxation year, is a one-time development and will not be repeated in subsequent months. In the fall, the Minister of Finance will present the government's annual update on economic and fiscal developments. At that time, there will be an assessment of current developments on the government's deficit targets.

Budgetary revenues up

Over the April to June 1997 period, budgetary revenues were up $3.3 billion, or 10.9 per cent, on a year-over-year basis. Of this increase $1 billion was attributable to the timing in the receipt of employment insurance premiums, which will be reversed over the latter half of the calendar year, with the remainder attributable to strength in the economy.

- Personal income tax collections were up $1.4 billion, or 8.9 per cent. This increase was due to higher taxes paid on filing, relating to stronger income growth in the 1996 taxation year and to the increases in the number of people employed this year.
- Corporate income tax collections were up $0.6 billion, or 22.2 per cent, attributable to an increase in corporate profits, in line with the strengthening economy.

Table 2

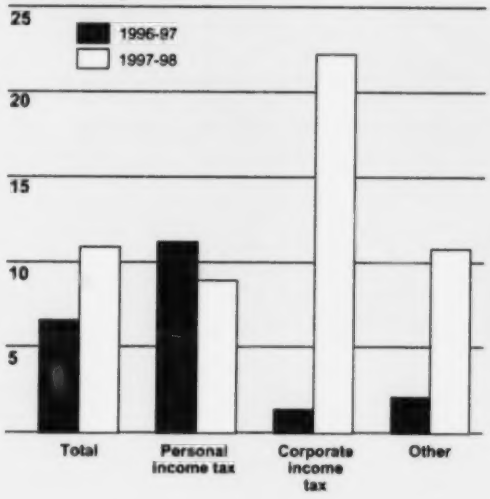
Budgetary revenues

	June		April to June		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,759	6,239	15,899	17,318	8.9
Corporate income tax	1,118	1,422	2,765	3,380	22.2
Other	137	146	513	556	8.4
Total income tax	7,014	7,827	19,177	21,254	10.8
Employment insurance premiums	1,566	1,862	4,575	5,564	21.6
Excise taxes and duties					
Goods and services tax	1,208	1,717	2,856	3,029	6.1
Customs import duties	216	118	480	333	-30.7
Other excise taxes/duties	652	786	1,718	1,864	8.5
Total excise taxes and duties	2,076	2,621	5,054	5,226	3.4
Total tax revenues	10,656	12,310	28,806	32,044	11.2
Non-tax revenues	545	719	1,470	1,524	3.7
Total budgetary revenues	11,200	13,029	30,276	33,568	10.9

- Employment insurance premiums were up $1.0 billion, or 21.6 per cent. This increase was entirely attributable to timing considerations, which will be reversed over the latter half of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- Net GST collections were up $0.2 billion, or 6.1 per cent. In the first two months of the current fiscal year, net GST collections were down on a year-over-year basis, reflecting the impact of timing considerations, given remittance procedures. This was largely reversed in June 1997, with the result that the year-to-date growth is more in line with the strength in consumer demand.
- Customs import duties were down $0.1 billion, or 30.7 per cent, in large part reflecting the impact of tariff reductions. Other excise taxes and duties were up $0.1 billion, or 8.5 per cent, reflecting higher receipts from energy taxes and from the air transport tax.

Budgetary revenues 1996-97 and 1997-98

April to June
Year-over-year growth



- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up 3.7 per cent, primarily reflecting higher other non-tax revenues, as return on investments was lower due to the effect of lower interest rates.

Program spending lower

Program spending declined by $0.9 billion in the first three months of 1997-98, compared to the same period last year. With the exception of other transfer payments, all other major components of program spending were lower in the April to June 1997 period than in the same period last year.

The profile of program spending by major component, in the first three months of 1997-98, primarily reflects the timing and the nature of the restraint measures introduced in the 1994, 1995 and 1996 budgets. Restraint measures introduced in the February 1994 budget and the impact of the Program Review I measures introduced in the February 1995 budget primarily focused on program spending excluding the major transfers to persons and other levels of government (operating and capital costs, defence, payments to Crown corporations and subsidies). As a result, this component of program spending declined by 10 per cent in 1995-96. In contrast, changes to the major transfers to other levels of government were largely delayed until 1996-97, thereby providing the provinces and territories time to plan for the restructuring in these transfers. Furthermore, the reductions in cash transfers to other levels of government are largely being phased in over two years – 1996-97 and 1997-98. As a result, whereas reductions in all other program spending accounted for most of the reduction in total program spending in 1995-96, the reductions in cash transfers to other levels of government is the major factor contributing to the decline in program spending in 1996-97 and 1997-98. However, cash transfers to other levels of government are expected to remain at $12.5 billion post-1997-98, whereas all other program spending is expected to continue to decline as the impact of Program Review II restraint measures takes effect.

- On a year-over-year basis, major transfers to persons (elderly benefits and employment insurance benefits) declined $0.2 billion over the April to June 1997 period, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in beneficiaries, primarily reflecting the impact of reform measures. The increase in elderly benefits was due to higher average benefits, which are indexed to inflation, and an increase in the eligible population
- In the first quarter of fiscal year 1997-98, major transfers to other levels of government were down $0.8 billion. This decline was attributable to the reduction in entitlements under the Canada Health and Social Transfer (CHST) and the rising value of the tax point transfers reflecting increases in the applicable tax bases. As noted above, in order to give provinces time to plan for these reductions, total entitlements – the most appropriate measure of federal support – were largely unaffected in 1995-96. Total entitlements were set at $29.6 billion in 1995-96, up 1 per cent from 1994-95, $26.9 billion in 1996-97 and $25.1 billion in 1997-98. They are being held at this level until 1999-2000. For 2000-01 to 2002-03, these entitlements will grow at an increasing pace. These entitlement are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no net impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which affects program spending, is determined not only by the change in entitlements, but also by the growth in the value of the tax point transfer. As a result, even with no change in entitlements, cash transfers would decline in line with the growth in the value of tax point transfers. Conversely, if the value of the tax point transfer declined, assuming no change in

Budgetary expenditures 1996-97 and 1997-98

April to June
Year-over-year growth

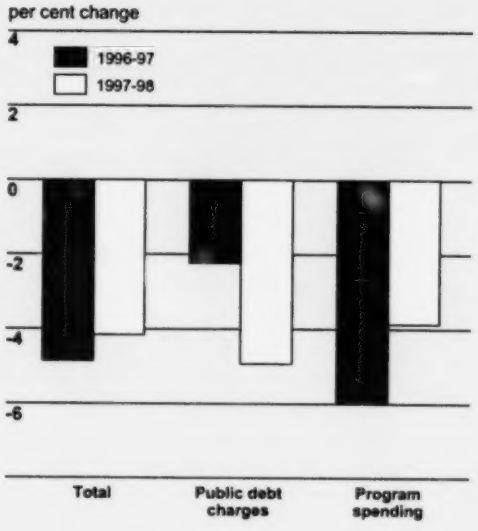


Table 3

Budgetary expenditures

	June		April to June		
	1996	1997	1996-97	1997-98	Per cent change
		(millions of dollars)			(%)
Transfer payments to:					
Persons					
Elderly benefits	1,791	1,853	5,296	5,470	3.3
Employment insurance benefits	853	846	3,265	2,914	-10.8
Total	2,644	2,699	8,561	8,384	-2.1
Other levels of government					
Canada Health and Social Transfer	1,254	1,022	3,762	3,057	-18.7
Fiscal transfers	811	787	2,506	2,452	-2.1
Alternative Payments for Standing Programs	-169	-178	-505	-533	5.5
Total	1,896	1,631	5,763	4,976	-13.7
Subsidies and other transfers					
Agriculture	15	60	66	75	13.6
Foreign Affairs	123	124	261	297	13.8
Human Resources Development	156	210	392	402	2.6
Indian and Northern Development	279	313	1,284	1,288	0.3
Industry and Regional Development	137	131	255	307	20.7
Veterans Affairs	111	114	335	342	1.8
Other	194	273	555	816	46.9
Total	1,015	1,225	3,148	3,526	12.0
Total transfers	5,556	5,555	17,472	16,886	-3.4
Payments to Crown corporations					
Canadian Broadcasting Corporation	65	66	298	249	-16.4
Canada Mortgage and Housing Corporation	177	114	451	364	-19.2
Other	103	86	303	292	-3.8
Total	345	267	1,052	905	-14.0
Operating and capital expenditures					
Defence	733	681	1,763	1,651	-6.4
All other departmental expenditures	1,375	1,431	3,840	3,777	-1.6
Total	2,108	2,112	5,603	5,428	-3.1
Total program expenditures 8,009		7,934	24,127	23,219	-3.8
Public debt charges	3,844	3,592	11,444	10,882	-4.9
Total budgetary expenditures	11,853	11,526	35,571	34,101	-4.1

Table 4

The deficit and financial requirements/source

	June		April to June	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	-653	1,503	-5,295	-533
Loans, investments and advances				
Crown corporations	133	-31	164	-74
Other	-118	-31	-227	-61
Total	15	-62	-63	-135
Specified purpose accounts				
Canada Pension Plan Account	-139	-35	1,147	1,169
Superannuation accounts	2,476	2,651	2,105	2,067
Other	13	-138	-40	-210
Total	2,350	2,478	3,212	3,026
Other transactions	-4,057	-4,429	-4,515	-2,841
Total non-budgetary transactions	-1,692	-2,013	-1,366	50
Financial requirements/source (excluding foreign exchange transactions)	-2,345	-510	-6,661	-483
Foreign exchange transactions	1,448	-844	446	1,048
Total financial requirements/source	-897	-1,354	-6,215	565

Table 5

Financial requirements/source and unmatured debt transactions

	June		April to June	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/source	-897	-1,354	-6,215	565
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	3,828	6,614	7,128	9,438
Canada Savings Bonds	-245	-340	-801	-927
Treasury bills	-3,700	-5,400	-7,600	-15,000
Other	525	450	522	447
Less: Government's holding	144	106	423	362
Total Canadian currency	552	1,430	-328	-5,680
Unmatured debt transactions				
Payable in foreign currencies				
Marketable bonds	–	–	–	–
Notes and loans	–	–	–	–
Canada bills	-252	625	-242	-277
Canada notes	–	305	611	–
Total foreign currencies	-252	930	369	-277
Total unmatured debt transactions	300	2,360	41	-5,957
Change in cash balance	-597	1,006	-6,174	-5,392

Table 6

Cash, unmatured debt and debt balances: at June 30

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,358	3,969
In foreign currencies	23	5
Total cash balance	2,381	3,974
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	259,893	292,001
Treasury bills	158,500	120,400
Canada Savings Bonds	30,627	32,566
Other	4,000	3,915
Subtotal	453,020	448,882
Less: Government's holdings of unmatured debt	527	596
Total	452,493	448,286
Payable in foreign currencies		
Marketable bonds	9,501	12,460
Notes and loans	0	0
Canada bills	6,744	8,159
Canada notes	921	2,121
Total	17,166	22,740
Total unmatured debt	469,659	471,026

entitlements, the cash component would rise correspondingly. For 1997-98, cash transfers are estimated at $12.5 billion and were expected to fall to $11.8 billion in 1998-99. However, the government has proposed that it will ensure that over the five-year period – 1998-99 to 2002-03 – cash transfers will never fall below $12.5 billion.

- Excluding major transfers to persons and other levels of government, all other program spending was virtually unchanged on a year-over-year basis. Declines in payments to Crown corporations, defence and all other departmental spending were offset by increases in subsidies and other transfers. The increase in the latter component primarily reflected the timing of payments, as total spending on subsidies and other transfers is expected to be lower in 1997-98 than in 1996-97 for the fiscal year as a whole, due to the restraint measures introduced in previous budgets. The year-over-year decline in the other components was attributable to the impact of restraint measures introduced in previous budgets. This was partially offset by costs incurred by Elections Canada in conducting the June 1997 federal election.

Public debt charges lower

Public debt charges were down $0.6 billion, or 4.9 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's net debt, which was only partially offset by the much slower growth in the stock of unmatured debt.

Financial requirements significantly lower

Financial requirements/source measure the difference between cash coming in to the government and cash going out. Financial requirements are usually lower than the budgetary deficit, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary deficit is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions usually provide the government with a net source of funds.

Non-budgetary transactions provided the government with a net source of funds over the April to June 1997 period, amounting to $50 million, compared to a net requirement of $1.4 billion in the same period last year. Most of this change was attributable to a reopening of some bonds, which resulted in a one-time cash gain but has only minor impact on the monthly deficit as such gains are amortized over the life of the bond.

With a budgetary deficit of $533 million and a net source of funds from non-budgetary transactions of $50 million, financial requirements, excluding foreign exchange transactions, amounted to only $483 million in the first quarter of 1997-98, compared to a net requirement of $6.7 billion in the same period last year.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. Foreign exchange transactions resulted in a net source of $1.0 billion in the first three months of 1997-98, compared to a source of $0.4 billion in the same period last year.

As a result, there was a financial source, including foreign exchange transactions, of $0.6 billion in the April to June 1997 period. In the same period last year, there was a net requirement of $6.2 billion.

In the first three months of 1997-98, the federal government reduced its holdings of unmatured debt by $6.0 billion, compared to the same period in 1996-97. The structure of the government's debt has also changed significantly, in order to further reduce the exposure to unexpected changes in interest rates. The share of debt held in short-term floating rate instruments, primarily Treasury bills, has been reduced, while the share held in longer-term rate instruments has increased. Cash balances as of June 30, 1997 amounted to $4.0 billion

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	38,048
Less:					
Refunds and rebates	11,330	12,138	14,271	17,112	18,874
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799
Net GST	15,168	14,868	15,696	16,787	16,374
GST penalties and interest received	19	71	90	129	135
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835

Figures to 1995-96 are from the *Public Accounts of Canada.*

Note: Numbers in this newsletter may not add due to rounding.

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1997

Budgetary surplus in July 1997

A surplus of $0.8 billion was recorded in July 1997, marking the third consecutive month in which a budgetary surplus was recorded – the first time that this has occurred since the early 1970s. This represents a net improvement in the federal government's budgetary position of $2.0 billion from July 1996. Budgetary revenues were up $1.0 billion (8.8 per cent), while program spending declined $0.7 billion (8.1 per cent). Public debt charges were down $0.3 billion (8.7 per cent).

The increase in budgetary revenues was spread throughout most major components. Corporate income tax collections were up $0.4 billion, primarily reflecting continued strength in corporate profits. Employment insurance premium revenues increased $0.2 billion, attributable to the acceleration of monthly payments. Goods and services tax (GST) collections increased $0.2 billion, reflecting continued strength in consumer demand. Personal income tax collections were up $0.2 billion, primarily due to gains in employment income, reflecting the recent advances in employment.

Most of the year-over-year decline in program spending was concentrated in transfers to other levels of government (down $0.5 billion) for the Canada Health and Social Transfer (CHST) and Equalization. The lower direct cash transfers under the CHST reflected both the reduction in total entitlements as well as the rising value of the tax point transfers. The lower cash transfers under the Equalization program were largely attributable to an adjustment relating to an overpayment in a previous month. The decline in public debt charges reflected the impact of lower interest rates.

Budgetary surplus in April to July period

Over the first four months of the 1997-98 fiscal year, the federal government reported a surplus of $0.3 billion. In the same period last year, a deficit of $6.5 billion was reported. This turnaround was attributable to the increasing strength in the economy, the impact of restraint measures introduced in the 1994 and 1995 budgets, and timing factors. Budgetary revenues were up $4.3 billion (10.3 per cent), program spending declined $1.6 billion (4.9 per cent), while public debt charges were $0.9 billion lower (5.9 per cent).

Financial source in April to July period

In the first four months of 1997-98, there was a financial source of $5.2 billion. This resulted from the budgetary surplus of $0.3 billion, a net source of funds from non-budgetary transactions of $0.9 billion and a net source of funds from foreign exchange transactions of $4.0 billion, the latter due to net repayments of debt by the Exchange Fund Account. Cash balances were $5.7 billion lower over the first four months of 1997-98. As a result, since the beginning of 1997-98, there has been a $10.9 billion retirement of marketable debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors, which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole, or to one-time developments that will not be repeated in future months. In the fall, the Minister of Finance will present the government's annual update on economic and fiscal developments. At that time, there will be an assessment of current developments on the government's deficit targets.

Budgetary revenues up

Over the April to July 1997 period, budgetary revenues were up $4.3 billion, or 10.3 per cent. About three-quarters of this increase is attributable to stronger economic conditions. The rest was due to an acceleration in employment insurance premium revenues, which will be offset in coming months.

- Personal income tax collections were up $1.6 billion, reflecting higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to stronger income growth in the 1996 taxation year.
- Corporate income tax collections were up $1.0 billion, while other income taxes, primarily non-resident withholding taxes, increased by $0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up $1.2 billion. All of this increase reflected timing factors, which will be reversed in the latter half of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premium rates are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- Goods and services tax collections were up $0.4 billion, largely attributable to the strength in consumer demand.
- Declines in customs import duties, reflecting the impact of tariff reductions under multilateral trade agreements, more than offset the small increases in other excise taxes and duties and non-tax revenues.

Program spending lower

Program spending declined $1.6 billion, or 4.9 per cent in the first four months of 1997-98, compared to the same period last year, with all major components lower. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets.

- Major transfers to persons declined $0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures.
- Major transfers to other levels of government were down $1.3 billion, reflecting lower cash transfers under the Canada Health and Social Transfer and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at $25.1 billion, down $1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down $0.9 billion over the first four months of 1997-98, compared to the same period last year, of which about $0.6 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down $0.3 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving provinces and non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.
- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by $0.1 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction in entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99.

Table 1
Summary statement of transactions

	July		April to July	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,129	12,106	41,405	45,674
Program spending	-8,288	-7,618	-32,415	-30,837
Operating surplus	2,841	4,488	8,990	14,837
Public debt charges	-3,996	-3,648	-15,440	-14,529
Deficit/surplus	-1,155	840	-6,450	308
Non-budgetary transactions	1,835	833	469	881
Financial requirements/source (excluding foreign exchange transactions)	680	1,673	-5,981	1,189
Foreign exchange transactions	118	2,922	565	3,970
Total financial requirements/source	798	4,595	-5,416	5,159
Unmatured debt transactions	1,566	-4,919	1,605	-10,875

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	July		April to July		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,105	5,297	21,004	22,615	7.7
Corporate income tax	1,400	1,807	4,165	5,187	24.5
Other	230	303	743	859	15.7
Total income tax	6,735	7,407	25,912	28,661	10.6
Employment insurance premiums	1,587	1,815	6,162	7,378	19.8
Excise taxes and duties					
Goods and services tax	1,262	1,457	4,118	4,486	8.9
Customs import duties	202	229	682	563	-17.5
Other excise taxes/duties	757	653	2,475	2,518	1.7
Total excise taxes and duties	2,221	2,339	7,275	7,567	4.0
Total tax revenues	10,543	11,561	39,349	43,606	10.8
Non-tax revenues	586	545	2,056	2,068	0.6
Total budgetary revenues	11,129	12,106	41,405	45,674	10.3

Table 3
Budgetary expenditures

	July		April to July		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,760	1,820	7,056	7,290	3.3
Employment insurance benefits	916	820	4,181	3,734	-10.7
Total	2,676	2,640	11,237	11,024	-1.9
Other levels of government					
Canada Health and Social Transfer	1,254	1,012	5,016	4,069	-18.9
Fiscal transfers	807	566	3,313	3,018	-8.9
Alternative Payments for Standing Programs	-169	-178	-674	-710	5.3
Total	1,892	1,400	7,655	6,377	-16.7
Subsidies and other transfers					
Agriculture	116	37	182	112	-38.5
Foreign Affairs	138	110	398	408	2.5
Human Resources Development	161	6	553	408	-26.2
Indian and Northern Development	181	281	1,464	1,569	7.2
Industry & Regional Development	79	97	333	404	21.3
Veterans Affairs	116	117	451	459	1.6
Other	263	289	818	1,104	35.0
Total	1,054	937	4,199	4,464	6.3
Total transfers	5,622	4,977	23,091	21,865	-5.3
Payments to Crown corporations					
Canadian Broadcasting Corporation	76	65	374	314	-16.0
Canada Mortgage and Housing Corporation	152	156	602	520	-13.7
Other	68	68	371	360	-2.8
Total	296	289	1,347	1,194	-11.4
Operating and capital expenditures					
Defence	741	746	2,506	2,397	-4.3
All other departmental expenditures	1,629	1,606	5,471	5,381	-1.6
Total	2,370	2,352	7,977	7,778	-2.5
Total program expenditures	8,288	7,618	32,415	30,837	-4.9
Public debt charges	3,996	3,648	15,440	14,529	-5.9
Total budgetary expenditures	12,284	11,266	47,855	45,366	-5.2

Table 4
The deficit and financial requirements/source

	July		April to July	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	-1,155	840	-6,450	308
Loans, investments and advances				
Crown corporations	387	157	551	83
Other	-23	-29	-250	-91
Total	364	128	301	-8
Specified purpose accounts				
Canada Pension Plan Account	-596	-479	641	690
Superannuation accounts	-174	-200	1,930	1,867
Other	51	–	11	-211
Total	-629	-679	2,582	2,346
Other transactions	2,100	1,384	-2,414	-1,457
Total non-budgetary transactions	1,835	833	469	881
Financial requirements/source (excluding foreign exchange transactions)	680	1,673	-5,981	1,189
Foreign exchange transactions	118	2,922	565	3,970
Total financial requirements/source	798	4,595	-5,416	5,159

Table 5
Financial requirements/source and unmatured debt transactions

	July		April to July	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/source	798	4,595	-5,416	5,159
Unmatured debt transactions: payable in Canadian dollars				
Marketable bonds	5,400	-4,200	12,528	5,238
Canada Savings Bonds	-252	-298	-1,053	-1,207
Treasury bills	-4,300	1,700	-11,900	-13,300
Other	365	386	887	833
Less: Government's holdings	154	167	575	530
Total Canadian currency	1,367	-2,227	1,037	-7,906
Unmatured debt transactions: payable in foreign currencies				
Marketable bonds	–	-776	–	-776
Notes and loans	–	–	–	–
Canada bills	199	-1,590	-43	-1,867
Canada notes	–	-326	611	-326
Total foreign currencies	199	-2,692	568	-2,969
Total unmatured debt transactions	1,566	-4,919	1,605	-10,875
Change in cash balance	2,364	-324	-3,811	-5,716

Table 6

Cash, unmatured debt and debt balances: at July 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	4,731	2,895
In foreign currencies	3	755
Total cash balance	4,734	3,650
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	265,293	287,801
Treasury bills	154,200	122,100
Canada Savings Bonds	30,375	32,286
Other	4,365	4,301
Subtotal	454,233	446,488
Less: Government's holdings of unmatured debt	375	429
Total	453,858	446,059
Payable in foreign currencies		
Marketable bonds	9,501	11,684
Notes and loans	0	0
Canada bills	6,943	6,569
Canada notes	921	1,795
Total	17,365	20,048
Total unmatured debt	471,223	466,107

In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has proposed that cash transfers over the 1997-98 to 2002-03 period will never fall below $12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily reflecting the timing of payments, while payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Public debt charges lower

Public debt charges were down $0.9 billion, or 5.9 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for August 1997

Deficit down $1.4 billion in August 1997

There was a deficit of $0.5 billion in August 1997, down $1.4 billion from August 1996. Budgetary revenues were up $0.9 billion (9.3 per cent), while program spending declined $0.4 billion (4.5 per cent). Public debt charges were down $0.1 billion (1.4 per cent).

The increase in budgetary revenues was concentrated in personal and corporate income tax collections and goods and services tax (GST) collections. Personal income tax collections were up $0.5 billion, primarily reflecting the recent advances in employment. Corporate income tax collections were up $0.4 billion, primarily reflecting continued strength in corporate profits. Goods and services tax collections increased $0.2 billion, reflecting continued strength in consumer demand. The decline in non-tax revenues was due to a correction for overstatements in previous months.

Most of the year-over-year decline in program spending was concentrated in transfers to other levels of government (down $0.3 billion) and operating and capital expenditures of government departments (down $0.2 billion). Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of tax point transfers. The decline in public debt charges reflected the impact of lower interest rates.

Deficit for April to August 1997 down $8.1 billion

Over the first five months of the 1997-98 fiscal year, the deficit amounted to $0.2 billion, down $8.1 billion from the same period a year ago. This turnaround was attributable to the impact of restraint measures introduced in the 1994 and 1995 budgets, the increasing strength in the economy, and timing factors, notably the acceleration of monthly employment insurance premium revenues within the year. Budgetary revenues were up $5.2 billion (10.1 per cent), program spending declined $1.9 billion (4.8 per cent), while public debt charges were $1.0 billion lower (5.0 per cent).

Financial surplus of $5.4 billion in April to August period

In the first five months of 1997-98, there was a financial surplus of $5.4 billion. This resulted from a net source of funds from foreign exchange transactions of $3.9 billion, a net source of funds from non-budgetary transactions of $1.7 billion and a budgetary deficit of $0.2 billion. Cash balances were $5.7 billion lower over the first five months of 1997-98. As a result, since the beginning of the 1997-98 fiscal year, the Government of Canada has been able to retire $11.0 billion of marketable debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors – for example, the increase in employment insurance premium revenues, which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole, or to one-time developments (increase in personal income tax collections due to taxes paid on filing related to the 1996 taxation year) that will not be repeated in future months.

Budgetary revenues up in April to August period

Over the April to August 1997 period, budgetary revenues were up $5.2 billion, or 10.1 per cent. About three-quarters of this increase is attributable to stronger economic conditions. The rest was due to an acceleration in employment insurance premium revenues, which will be offset in coming months.

Table 1
Summary statement of transactions

	August		April to August	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	9,992	10,925	51,398	56,599
Program spending	-8,187	-7,816	-40,602	-38,653
Operating surplus	1,805	3,109	10,796	17,946
Public debt charges	-3,688	-3,635	-19,128	-18,164
Deficit/surplus	-1,883	-526	-8,332	-218
Non-budgetary transactions	1,257	824	1,728	1,706
Financial requirements/surplus (excluding foreign exchange transactions)	-626	298	-6,604	1,488
Foreign exchange transactions	556	-97	1,121	3,873
Total financial requirements/surplus	-70	201	-5,483	5,361
Unmatured debt transactions	-427	-153	1,178	-11,028

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

- Personal income tax collections were up $2.1 billion, reflecting higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to stronger income growth in the 1996 taxation year.
- Corporate income tax collections were up $1.4 billion, while other income taxes, primarily non-resident withholding taxes, increased by $0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up $1.3 billion. All of this increase reflected timing factors, which will be reversed in the latter half of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premium rates are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- Good and services tax collections were up $0.6 billion, largely attributable to the strength in consumer demand.
- The decline in customs import duties reflected the impact of tariff reductions under multilateral trade agreements. Other excise taxes and duties were up slightly.
- The decline in non-tax revenues was attributable to lower earnings on investments, reflecting the impact of the decline in interest rates.

Program spending lower in April to August period

Program spending declined $1.9 billion, or 4.8 per cent in the first five months of 1997-98, compared to the same period last year, with all major components lower. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets.

- Major transfers to persons declined $0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures.

Table 2
Budgetary revenues

	August		April to August		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	4,573	5,071	25,577	27,686	8.2
Corporate income tax	873	1,251	5,038	6,438	27.8
Other income tax revenue	152	134	895	993	10.9
Total income tax	5,598	6,456	31,510	35,117	11.4
Employment insurance premium revenues	1,609	1,677	7,771	9,055	16.5
Excise taxes and duties					
Goods and services tax	1,323	1,545	5,441	6,031	10.8
Customs import duties	223	237	905	799	-11.7
Other excise taxes and duties	726	733	3,201	3,252	1.6
Total excise taxes and duties	2,272	2,515	9,547	10,082	5.6
Total tax revenues	9,479	10,648	48,828	54,254	11.1
Non-tax revenues	513	277	2,570	2,345	-8.8
Total budgetary revenues	9,992	10,925	51,398	56,599	10.1

- Major transfers to other levels of government were down $1.6 billion, reflecting lower cash transfers under the Canada Health and Social Transfer and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at $25.1 billion, down $1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down $1.2 billion over the first five months of 1997-98, compared to the same period last year, of which about $0.8 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down $0.3 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving provinces and the non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by $0.1 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction in entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has proposed that cash

Table 3
Budgetary expenditures

	August		April to August		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,784	1,858	8,839	9,148	3.5
Employment insurance benefits	941	836	5,122	4,569	-10.8
Total	2,725	2,694	13,961	13,717	-1.7
Other levels of government					
Canada Health and Social Transfer	1,254	1,026	6,270	5,095	-18.7
Fiscal transfers	810	755	4,123	3,772	-8.5
Alternative Payments for Standing Programs	-169	-178	-844	-888	5.2
Total	1,895	1,603	9,549	7,979	-16.4
Subsidies and other transfers					
Agriculture	61	33	243	145	-40.3
Foreign Affairs	149	138	548	545	-0.5
Human Resources Development	-39	86	514	493	-4.1
Indian and Northern Development	243	248	1,707	1,817	6.4
Industry & Regional Development	168	164	501	568	13.4
Veterans Affairs	112	112	563	570	1.2
Other	135	217	953	1,320	38.5
Total	829	998	5,029	5,458	8.5
Total transfers	5,449	5,295	28,539	27,154	-4.9
Payments to Crown corporations					
Canadian Broadcasting Corporation	66	65	440	379	-13.9
Canada Mortgage and Housing Corporation	119	119	722	639	-11.5
Other	123	108	494	469	-5.1
Total	308	292	1,656	1,487	-10.2
Operating and capital expenditures					
Defence	849	750	3,355	3,146	-6.2
All other departmental expenditures	1,581	1,479	7,052	6,866	-2.6
Total	2,430	2,229	10,407	10,012	-3.8
Total program expenditures	8,187	7,816	40,602	38,653	-4.8
Public debt charges	3,688	3,635	19,128	18,164	-5.0
Total budgetary expenditures	11,875	11,451	59,730	56,817	-4.9

transfers over the 1997-98 to 2002-03 will never fall below $12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily reflecting the timing of payments, while payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Public debt charges lower in April to August period

Public debt charges were down $1.0 billion, or 5.0 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

Table 4
The deficit and financial requirements/surplus

	August		April to August	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-1,883	-526	-8,332	-218
Loans, investments and advances				
Crown corporations	58	57	609	140
Other	1	41	-249	-49
Total	59	98	360	91
Specified purpose accounts				
Canada Pension Plan Account	-305	-289	336	400
Superannuation accounts	-209	-985	1,721	882
Other	56	-91	69	-302
Total	-458	-1,365	2,126	980
Other transactions	1,656	2,091	-758	635
Total non-budgetary transactions	1,257	824	1,728	1,706
Financial requirements/surplus (excluding foreign exchange transactions)	-626	298	-6,604	1,488
Foreign exchange transactions	556	-97	1,121	3,873
Total financial requirements/surplus	-70	201	-5,483	5,361

Table 5
Financial requirements/surplus and unmatured debt transactions

	August		April to August	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-70	201	-5,483	5,361
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	100	3,600	12,628	8,838
Canada Savings Bonds	-218	-237	-1,271	-1,444
Treasury bills	-300	-4,600	-12,200	-17,900
Other	-1	-1	886	832
Subtotal	-419	-1,238	43	-9,674
Less: Government's holdings of unmatured debt	102	107	677	638
Total	-317	-1,131	720	-9,036
Payable in foreign dollars				
Marketable bonds	0	61	0	-716
Notes and loans	0	0	0	0
Canada bills	-110	917	-153	-950
Canada notes	0	0	611	-326
Total	-110	978	458	-1,992
Total unmatured debt transactions	-427	-153	1,178	-11,028
Change in cash balance	-497	48	-4,305	-5,667

Table 6

Cash, unmatured debt and debt balances: at August 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	4,207	3,541
In foreign currencies	31	157
Total cash balance	4,238	3,698
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	265,393	291,401
Treasury bills	153,900	117,500
Canada Savings Bonds	30,157	32,049
Other	4,364	4,300
Subtotal	453,814	445,250
Less: Government's holdings of unmatured debt	357	320
Total	453,457	444,930
Payable in foreign currencies		
Marketable bonds	9,514	11,745
Notes and loans	0	0
Canada bills	6,834	7,486
Canada notes	921	1,795
Total	17,269	21,026
Total unmatured debt	470,726	465,956

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October 1997

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for September 1997

Budgetary surplus of $2.0 billion recorded in September 1997

A surplus of $2.0 billion was recorded in September 1997 – a net improvement of $0.6 billion from the surplus of $1.3 billion recorded in September 1996. Budgetary revenues were up $0.3 billion (2.5 per cent), while program spending declined $0.3 billion (4.2 per cent). Public debt charges were up slightly.

The increase in budgetary revenues was primarily due to higher corporate income tax collections (up $0.3 billion), reflecting the continued strength in corporate profits. Personal income tax collections were up $0.1 billion, primarily attributable to higher installment payments. The decline in goods and services tax collections was largely due to unusually low refunds reported in September 1996. Employment insurance premium revenues were also below last year's level, reflecting the impact of the change in remittance requirements that came into effect in January 1997.

The decline in program spending reflected the impact of previous budget actions. Lower spending was reported in all major components with the exception of transfers to persons and expenditures related to Crown corporations. Within major transfers to persons, employment insurance benefits were up, as higher expenditures for training programs more than offset lower regular benefit payments. The increase in expenditures related to Crown corporations reflected timing considerations. The slight increase in public debt charges was attributable to accrual adjustments related to previous periods.

Deficit for April to September 1997 down $8.7 billion

Over the first six months of the 1997-98 fiscal year, a surplus of $1.7 billion was reported, an improvement of $8.7 billion from the same period last year. This year-over-year improvement was largely attributable to the increasing strength in the economy and the impact of previous budget measures. Budgetary revenues were up $5.5 billion (8.6 per cent), program spending declined $2.3 billion (4.7 per cent), while public debt charges were $0.9 billion lower (4.0 per cent).

Financial surplus

With a budgetary surplus of $1.7 billion and a net source of funds from non-budgetary transactions of $1.4 billion, there was a financial surplus, excluding foreign exchange transactions, of $3.1 billion, compared to a net requirement of $4.3 billion over the same period last year. Foreign exchange transactions provided the government with a net source of funds amounting to $3.3 billion over the April to September 1997 period, compared to a net source of $0.3 billion over the six months in 1996-97. As a result, there was a total financial surplus of $6.4 billion to date, compared to a net requirement of $3.9 billion over the same period last year. There was a net repayment of marketable debt of $13.0 billion in the first six months of 1997-98.

In the October 15, 1997 *Economic and Fiscal Update*, the government indicated that the budget would be balanced no later than 1998-99. However, caution should be exercised in extrapolating these monthly results to gain an assessment of the possible outcome for the year as a whole. Some of the improvement to date was due to special factors – for example, all of the year-to-date increase in employment insurance premiums will be reversed by the end of the calendar year, thereby having no impact on the budget outcome for the year as a whole – or to one-time developments (part of the increase in personal income tax collections due to higher taxes paid on filing, in respect of the 1996 taxation year).

Table 1

Summary statement of transactions

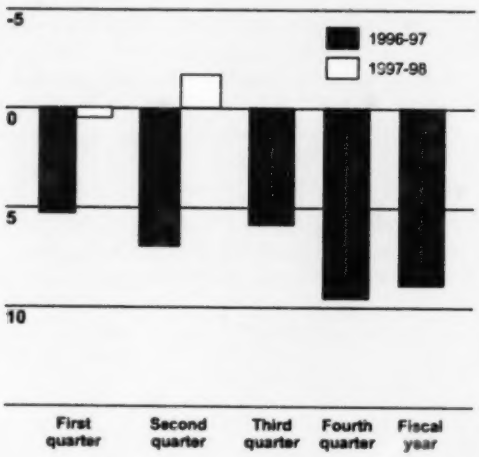
	September		April to September	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	13,176	13,505	64,574	70,104
Program spending	-8,213	-7,865	-48,815	-46,518
Operating surplus	4,963	5,640	15,759	23,586
Public debt charges	-3,635	-3,681	-22,763	-21,845
Deficit/surplus	1,328	1,959	-7,004	1,741
Non-budgetary transactions	1,030	-303	2,754	1,403
Financial requirements/surplus (excluding foreign exchange transactions)	2,358	1,656	-4,250	3,144
Foreign exchange transactions	-791	-585	330	3,288
Total financial requirements/surplus	1,567	1,071	-3,920	6,432
Unmatured debt transactions	-1,578	-1,991	-400	-13,019

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal budgetary balance 1996-97 and 1997-98

Year to date

billions of dollars



Budgetary revenues up in April to September period

Over the April to September 1997 period, budgetary revenues were up $5.5 billion, or 8.6 per cent, on a year-over-year basis. Of this increase, $1.2 billion was attributable to the acceleration of employment insurance premium revenues, which will be reversed over the latter half of the calendar year, with the remainder attributable to continued strength in the economy.

- Personal income tax collections were up $2.2 billion, or 6.8 per cent. This increase was due to higher taxes paid on filing and quarterly installment payments, relating to the 1996 taxation year and to higher deductions at source from employment, in line with the strong gains in employment this year.
- Corporate income tax collections were up $1.7 billion, or 28.3 per cent, attributable to an increase in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up $1.2 billion, or 12.8 per cent. This increase was entirely attributable to timing considerations, which will be reversed over the latter half of the calendar

Table 2

Budgetary revenues

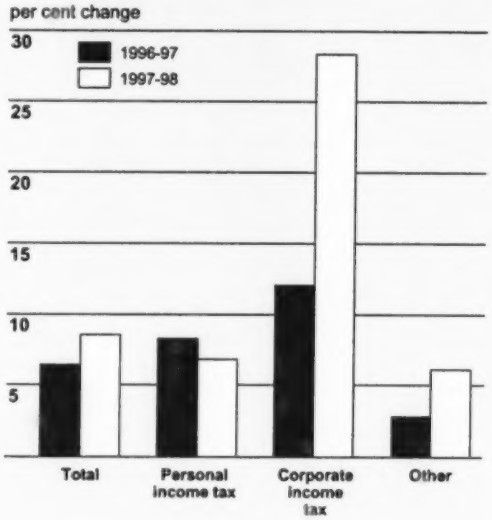
	September		April to September		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	6,866	6,953	32,443	34,639	6.8
Corporate income tax	1,059	1,384	6,096	7,822	28.3
Other income tax revenue	187	198	1,081	1,191	10.2
Total income tax	8,112	8,535	39,620	43,652	10.2
Employment insurance premium revenues	1,616	1,538	9,387	10,593	12.8
Excise taxes and duties					
Goods and services tax	1,982	1,873	7,423	7,904	6.5
Customs import duties	240	262	1,145	1,061	-7.3
Sales and excise taxes	753	808	3,954	4,059	2.7
Total excise taxes and duties	2,975	2,943	12,522	13,024	4.0
Total tax revenues	12,703	13,016	61,529	67,269	9.3
Non-tax revenues	473	489	3,045	2,835	-6.9
Total budgetary revenues	13,176	13,505	64,574	70,104	8.6

year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the last four months of the calendar year to the first eight months. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.

- Net GST collections were up $0.5 billion, or 6.5 per cent, in line with the continued strength in consumer demand.
- Customs import duties were down $0.1 billion, or 7.3 per cent, in large part reflecting the impact of tariff reductions. Other excise taxes and duties were up $0.1 billion, or 2.7 per cent, primarily reflecting higher receipts from energy taxes.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down $0.2 billion or 6.9 per cent, primarily reflecting lower earnings on investments, due to the effect of lower interest rates.

Budgetary revenues 1996-97 and 1997-98

April to September
Year-over-year growth



Program spending lower in April to September period

Program spending declined by $2.3 billion, or 4.7 per cent, in the first six months of 1997-98, compared to the same period last year. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets, and to a lesser extent, the growth in the economy.

- Major transfers to persons declined $0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures and a decline in the number of unemployed.

- Major transfers to other levels of government were down $1.9 billion, reflecting lower cash transfers under the Canada Health and Social Transfer (CHST) and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at $25.1 billion, down $1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down $1.4 billion over the first six months of 1997-98, compared to the same period last year, of which about $1 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down $0.4 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving provinces and the non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by $0.3 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has committed to increase the $11 billion cash component to $12.5 billion. Therefore, cash transfers to the provinces over the 1997-98 to 2002-03 period will not fall below $12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily due to payments associated with the sale of the Air Navigation System to Nav Canada, while expenditures relating to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Budgetary expenditures 1996-97 and 1997-98

April to September
Year-over-year growth

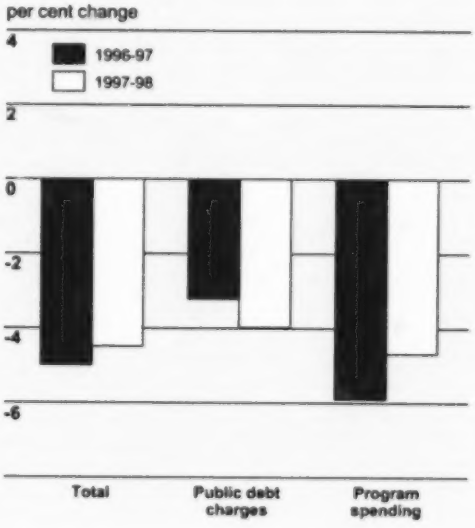


Table 3

Budgetary expenditures

	September		April to September		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,825	1,866	10,664	11,014	3.3
Employment insurance benefits	826	856	5,948	5,425	-8.8
Total	2,651	2,722	16,612	16,439	-1.0
Other levels of government					
Canada Health and Social Transfer	1,254	1,012	7,524	6,107	-18.8
Fiscal transfers	789	755	4,912	4,527	-7.8
Alternative Payments for Standing Programs	-169	-178	-1,013	-1,065	5.1
Total	1,874	1,589	11,423	9,569	-16.2
Subsidies and other transfers					
Agriculture	68	71	311	216	-30.5
Foreign Affairs	133	127	681	672	-1.3
Human Resources Development	176	124	690	618	-10.4
Indian and Northern Development	301	312	2,009	2,129	6.0
Industry and Regional Development	72	99	573	667	16.4
Veterans Affairs	113	118	676	688	1.8
Other	259	237	1,212	1,557	28.5
Total	1,122	1,088	6,152	6,547	6.4
Total transfers	5,647	5,399	34,187	32,555	-4.8
Payments to Crown corporations					
Canadian Broadcasting Corporation	64	69	504	448	-11.1
Canada Mortgage and Housing Corporation	152	118	874	757	-13.4
Other	72	108	566	576	1.8
Total	288	295	1,944	1,781	-8.4
Operating and capital expenditures					
Defence	768	759	4,123	3,905	-5.3
All other departmental expenditures	1,510	1,412	8,561	8,277	-3.3
Total	2,278	2,171	12,684	12,182	-4.0
Total program expenditures 8,213		7,865	48,815	46,518	-4.7
Public debt charges	3,635	3,681	22,763	21,845	-4.0
Total budgetary expenditures	11,848	11,546	71,578	68,363	-4.5

Table 4

The deficit and financial requirements/surplus

	September		April to September	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	1,328	1,959	-7,004	1,741
Loans, investments and advances				
Crown corporations	148	249	758	389
Other	132	-115	-383	-164
Total	16	134	375	225
Specified purpose accounts				
Canada Pension Plan Account	484	425	819	825
Superannuation accounts	2,562	2,686	4,283	3,568
Other	20	30	88	-272
Total	3,066	3,141	5,190	4,121
Other transactions	-2,052	-3,578	-2,811	-2,943
Total non-budgetary transactions	1,030	-303	2,754	1,403
Financial requirements/surplus (excluding foreign exchange transactions)	2,358	1,656	-4,250	3,144
Foreign exchange transactions	-791	-585	330	3,288
Total financial requirements/surplus	1,567	1,071	-3,920	6,432

Table 5

Financial requirements/surplus and unmatured debt transactions

	September		April to September	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	1,567	1,071	-3,920	6,432
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	950	1,012	13,578	9,850
Canada Savings Bonds	-206	-195	-1,477	-1,639
Treasury bills	-1,700	-2,200	-13,900	-20,100
Other	-527	-453		380
Subtotal	-1,483	-1,836	-1,799	-11,509
Less: Government's holding of unmatured debt	113	119	790	756
Total	-1,370	-1,717	-1,009	-10,753
Payable in foreign currencies				
Marketable bonds	0	0	0	-716
Notes and loans	0	0	0	0
Canada bills	-208	-274	-361	-1,224
Canada notes	0	0	611	-326
Total	-208	-274	250	-2,266
Total unmatured debt transactions	-1,578	-1,991	-759	-13,019
Change in cash balance	-11	-920	-4,679	-6,587

Table 6

Cash, unmatured debt and debt balances: at September 30

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	4,207	2,715
In foreign currencies	19	63
Total cash balance	4,226	2,778
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	266,343	292,413
Treasury bills	152,200	115,300
Canada Savings Bonds	29,951	31,855
Other	3,837	3,848
Subtotal	452,331	443,416
Less: Government's holdings of unmatured debt	244	202
Total	452,087	443,214
Payable in foreign dollars		
Marketable bonds	9,514	11,744
Notes and loans	0	0
Canada bills	6,625	7,212
Canada notes	921	1,795
Total	17,060	20,751
Total unmatured debt	469,147	463,965

Public debt charges lower in April to September period

Public debt charges were down $0.9 billion, or 4.0 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

Financial surplus in April to September period

Financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements are usually lower than the budgetary deficit, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary deficit is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions usually provide the government with a net source of funds.

Non-budgetary transactions provided the government with a net source of funds over the April to September 1997 period, amounting to $1.4 billion, compared to a net source of $2.8 billion in the same period last year. The lower source was attributable to the transfer of applicable pension assets to Nav Canada and the special one-time payment to the Canada Foundation for Innovation.

With a budgetary surplus of $1.7 billion and a net source of funds from non-budgetary transactions of $1.4 billion, there was a financial surplus, excluding foreign exchange transactions, of $3.1 billion in the first six months of 1997-98, compared to a net requirement of $4.3 billion in the same period last year.

The purpose of the Foreign Exchange Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is

upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. Foreign exchange transactions resulted in a net source of $3.3 billion in the first six months of 1997-98, compared to a source of $0.3 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of $6.4 billion in the April to September 1997 period. In the same period last year, there was a net requirement of $3.9 billion.

In the first six months of 1997-98, the federal government retired $13.0 billion of its marketable debt. The structure of the government's debt has also changed significantly, in order to reduce further the exposure to unexpected changes in interest rates. The share of debt held in short-term floating rate instruments, primarily Treasury bills, has been reduced, while the share held in longer-term rate instruments has increased. Cash balances as of September 30, 1997 amounted to $2.8 billion.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and, ultimately, to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
			(millions of dollars)			
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: *Public Accounts of Canada – 1997*

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November 1997

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for October 1997

Deficit of $0.9 billion in October 1997

There was a deficit of $0.9 billion in October 1997, up $0.4 billion from October 1996. However, the October 1996 deficit figures included the one-time cash proceeds of $1.5 billion from the sale of the Air Navigation System. Excluding this impact from the October 1996 results, the underlying improvement on a year-over-year basis was $1.1 billion.

On a year-over-year basis, budgetary revenues declined $0.9 billion (7.2 per cent). Excluding the impact of the sale of the Air Navigation System in October 1996, the underlying increase in budgetary revenues was $0.6 billion, or 6.0 per cent. Within budgetary revenues, personal income tax collections were up $0.4 billion, primarily reflecting the advances in employment; corporate income tax collections were up $0.1 billion, primarily reflecting continued strength in corporate profits; while goods and services tax (GST) collections increased $0.3 billion, reflecting continued strength in consumer demand. Employment insurance premium revenues were $0.2 billion lower, reflecting the impact of the change in remittance requirements that came into effect in January 1997. Non-tax revenues were $1.7 billion lower, primarily due to the one-time impact in October 1996 of the proceeds from the sale of the Air Navigation System.

Program spending was again lower on a year-over-year basis – down $0.2 billion (2.5 per cent) from October 1996. Most of this decline was concentrated in lower employment insurance benefits and transfers to other levels of government. Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of tax point transfers.

Public debt charges were $0.2 billion (5.1 per cent) lower than in October 1996, reflecting the impact of lower interest rates.

Surplus for April to October 1997 of $0.8 billion

Over the first seven months of the 1997-98 fiscal year, there was a surplus of $0.8 billion. This was an improvement of $8.3 billion from the deficit of $7.5 billion reported for the first seven months of 1996-97. This turnaround was attributable to the increasing strength in the economy, the impact of restraint measures introduced in the 1994 and 1995 budgets, and timing factors, notably the acceleration of monthly employment insurance premium revenues within the year. Budgetary revenues were up $4.7 billion (6.1 per cent), program spending declined $2.5 billion (4.4 per cent), while public debt charges were $1.1 billion lower (4.2 per cent).

Financial surplus of $7.5 billion in April to October period

With a budgetary surplus of $0.8 billion and a net source of funds from non-budgetary transactions of $2.7 billion, there was a financial surplus, excluding foreign exchange transactions, of $3.5 billion, an improvement of $7.9 billion from the same period in 1996-97. There was a net source of funds amounting to $4.0 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of $7.5 billion, an improvement of $13.0 billion from the same period last year. Cash balances were $3.9 billion lower over the first seven months of 1997-98. As a result, since the beginning of the 1997-98 fiscal year, there has been a $11.0 billion retirement of marketable debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors – for example, the increase in employment insurance premium revenues, which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole, or to one-time developments (increase in personal income tax collections due to taxes paid on filing related to the 1996 taxation year) that will not be repeated in

Table 1
Summary statement of transactions

	October		April to October	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	12,080	11,216	76,654	81,320
Program spending	-8,746	-8,529	-57,561	-55,046
Operating surplus	3,334	2,687	19,093	26,274
Public debt charges	-3,830	-3,633	-26,593	-25,479
Deficit/surplus	-496	-946	-7,500	795
Non-budgetary transactions	344	1,317	3,102	2,719
Financial requirements/surplus (excluding foreign exchange transactions)	-152	371	-4,398	3,514
Foreign exchange transactions	-1,457	677	-1,127	3,965
Total financial requirements/surplus	-1,609	1,048	-5,525	7,459
Unmatured debt transactions	45	1,614	-355	-11,405

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

future months. In the October 15, 1997 *Economic and Fiscal Update*, the government indicated that the budget would be balanced no later than 1998-99.

Budgetary revenues up in April to October period

Over the April to October 1997 period, budgetary revenues were up $4.7 billion, or 6.1 per cent. Most of this increase was attributable to the strength in the economy.

- Personal income tax collections were up $2.6 billion, reflecting higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to income growth in the 1996 taxation year.
- Corporate income tax collections were up $1.9 billion, while other income taxes, primarily non-resident withholding taxes, increased by $0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up $1.0 billion. All of this increase reflected timing factors, which will be reversed in the next two months of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premium rates are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end. With the recently announced reduction in employee premium rates, from $2.90 per $100 of insurable earnings in 1997 to $2.70 for 1998, premium revenues for 1997-98 should be lower than those reported in 1996-97.
- Good and services tax collections were up $0.8 billion, largely attributable to the strength in consumer demand.
- The decline in customs import duties reflected the impact of tariff reductions under multilateral trade agreements. Other excise taxes and duties were up $0.2 billion, primarily due to higher energy-related taxes.
- Non-tax revenues were down $1.9 billion. Of the decline, $1.5 billion was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System. Most of the remaining decline was due to lower earnings on investments, reflecting the impact of the decline in interest rates.

Table 2
Budgetary revenues

	October		April to October		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	4,782	5,222	37,225	39,861	7.1
Corporate income tax	1,191	1,334	7,287	9,156	25.6
Other income tax revenue	143	184	1,225	1,375	12.2
Total income tax	6,116	6,740	45,737	50,392	10.2
Employment insurance premium revenues	1,594	1,382	10,981	11,976	9.1
Excise taxes and duties					
Goods and services tax	1,409	1,725	8,832	9,630	9.0
Customs import duties	264	305	1,408	1,367	-2.9
Other excise taxes and duties	721	802	4,677	4,863	4.0
Total excise taxes and duties	2,394	2,832	14,917	15,860	6.3
Total tax revenues	10,104	10,954	71,635	78,228	9.2
Non-tax revenues	1,976	262	5,019	3,092	-38.4
Total budgetary revenues	12,080	11,216	76,654	81,320	6.1

Program spending lower in April to October period

Program spending declined $2.5 billion, or 4.4 per cent in the first seven months of 1997-98, compared to the same period last year, with all major components except subsidies and other transfers lower. The decline in total program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and, to a lesser extent, to the growth in the economy.

- Major transfers to persons declined $0.4 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.
- Major transfers to other levels of government were down $2.0 billion, reflecting lower cash transfers under the CHST and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at $25.1 billion, down $1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down $1.7 billion over the first seven months of 1997-98, compared to the same period last year, of which about $1.1 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down $0.3 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving and non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.
- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by $0.2 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including

Table 3
Budgetary expenditures

	October		April to October		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,811	1,830	12,476	12,844	2.9
Employment insurance benefits	971	761	6,919	6,186	-10.6
Total	2,782	2,591	19,395	19,030	-1.9
Other levels of government					
Canada Health and Social Transfer	1,267	1,026	8,791	7,133	-18.9
Fiscal transfers	767	887	5,659	5,414	-4.7
Alternative Payments for Standing Programs	-167	-178	-1,180	-1,243	5.3
Total	1,867	1,735	13,290	11,304	-14.9
Subsidies and other transfers					
Agriculture	69	102	380	318	-16.3
Foreign Affairs	111	122	792	794	0.3
Human Resources Development	193	168	883	785	-11.1
Indian and Northern Development	245	249	2,253	2,377	5.5
Industry and Regional Development	186	194	759	861	13.4
Veterans Affairs	118	115	794	803	1.1
Other	245	353	1,457	1,910	31.1
Total	1,167	1,303	7,318	7,848	7.2
Total transfers	5,816	5,629	40,003	38,182	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	76	74	580	522	-10.0
Canada Mortgage and Housing Corporation	144	167	1,018	924	-9.2
Other	159	58	725	634	-12.6
Total	379	299	2,323	2,080	-10.5
Operating and capital expenditures					
Defence	755	822	4,878	4,726	-3.1
All other departmental expenditures	1,796	1,779	10,357	10,058	-2.9
Total	2,551	2,601	15,235	14,784	-3.0
Total program expenditures	8,746	8,529	57,561	55,046	-4.4
Public debt charges	3,830	3,633	26,593	25,479	-4.2
Total budgetary expenditures	12,576	12,162	84,154	80,525	-4.3

defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has proposed that cash transfers over the 1997-98 to 2002-03 period will never fall below $12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily reflecting the timing of payments and payments associated with the sale of the Air Navigation System to Nav Canada. Payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Table 4
The deficit and financial requirements/surplus

	October		April to October	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-496	-946	-7,500	795
Loans, investments and advances				
Crown corporations	3	-118	760	271
Other	88	24	-293	-140
Total	91	-94	467	131
Specified purpose accounts				
Canada Pension Plan Account	152	164	971	989
Superannuation accounts	-137	-220	4,146	3,348
Other	50	44	140	-229
Total	65	-12	5,257	4,108
Other transactions	188	1,423	-2,622	-1,520
Total non-budgetary transactions	344	1,317	3,102	2,719
Financial requirements/surplus (excluding foreign exchange transactions)	-152	371	-4,398	3,514
Foreign exchange transactions	-1,457	677	-1,127	3,965
Total financial requirements/surplus	-1,609	1,048	-5,525	7,479

Table 5
Financial requirements/surplus and unmatured debt transactions

	October		April to October	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-1,609	1,048	-5,525	7,479
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	1,775	-2,775	15,353	7,075
Canada Savings Bonds	-345	-428	-1,822	-2,067
Treasury bills	-2,400	4,600	-16,300	-15,500
Other	-366	-388	-7	-8
Subtotal	-1,336	1,009	-2,776	-10,500
Less: Government's holdings of unmatured debt	63	38	853	794
Total	-1,273	1,047	-1,923	-9,706
Payable in foreign currencies				
Marketable bonds	0	438	0	-278
Notes and loans	0	0	0	0
Canada bills	361	198	0	-1,026
Canada notes	957	-69	1,568	-395
Total	1,318	567	1,568	-1,699
Total unmatured debt transactions	45	1,614	-355	-11,405
Change in cash balance	-1,564	2,662	-5,880	-3,926

Table 6

Cash, unmatured debt and debt balances: at October 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,662	5,398
In foreign currencies	2	42
Total cash balance	2,664	5,440
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	268,118	289,638
Treasury bills	149,800	119,900
Canada Savings Bonds	29,606	31,426
Other	3,471	3,460
Subtotal	450,995	444,424
Less: Government's holdings of unmatured debt	181	294
Total	450,814	444,130
Payable in foreign currencies		
Marketable bonds	9,514	12,182
Notes and loans	0	0
Canada bills	6,986	7,421
Canada notes	1,878	1,726
Total	18,378	21,329
Total unmatured debt	469,192	465,459

Public debt charges lower in April to October period

Public debt charges were down $1.1 billion, or 4.3 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

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December 1997

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for November 1997

Surplus of $0.6 billion in November 1997

There was a surplus of $0.6 billion in November 1997, compared to a deficit of $0.6 billion in November 1996. As a result, on a year-over-year basis, there was a net improvement in the federal government's budgetary position of $1.2 billion. Budgetary revenues were up $0.7 billion (6.6 per cent), program spending declined by $0.3 billion (4.3 per cent), while public debt charges were $0.1 billion (3.7 per cent) lower.

Within budgetary revenues, personal income tax collections were up $0.2 billion, primarily reflecting the advances in employment, corporate income tax collections were up $0.3 billion, primarily reflecting continued strength in corporate profits, while goods and services tax (GST) collections increased $0.5 billion, reflecting continued strength in consumer demand. In contrast, employment insurance premium revenues were $0.4 billion lower, reflecting the impact of the change in remittance requirements that came into effect in January 1997.

The decline in program spending reflected lower expenditures related to transfers to other levels of government, subsidies and other transfers, payments to Crown corporations, and operating and capital expenditures. Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of the tax point transfers. Transfers for elderly benefits and employment insurance benefits were higher, the latter reflecting the timing of payments.

The decline in public debt charges was attributable to the impact of lower average effective interest rates.

Surplus for April to November 1997 of $1.4 billion

Over the first eight months of the 1997-98 fiscal year, there was a surplus of $1.4 billion, representing an improvement of $9.5 billion from the deficit of $8.1 billion reported for the first eight months of 1996-97.

This turnaround was attributable to the increasing strength in the economy on budgetary revenues, the impact of restraint measures introduced in the 1994 and 1995 budgets on program spending, and to a lesser extent, timing factors, notably the acceleration of monthly employment insurance premium revenues within the year. Budgetary revenues were up $5.4 billion (6.1 per cent), program spending declined $2.9 billion (4.4 per cent), while public debt charges were $1.2 billion lower (4.1 per cent).

Financial surplus of $11.3 billion in April to November period

With a budgetary surplus of $1.4 billion and a net source of funds from non-budgetary transactions of $4.4 billion, there was a financial surplus, excluding foreign exchange transactions, of $5.7 billion, an improvement of $9.5 billion from the same period in 1996-97. There was also a net source of funds amounting to $5.6 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of $11.3 billion, an improvement of $18.9 billion from the same period last year. Cash balances were slightly lower over the first eight months of 1997-98, compared to the end of the 1996-97 fiscal year. As a result, since the beginning of the 1997-98 fiscal year, there has been a $11.5 billion retirement of market debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors (for example, the increase in employment insurance premium revenues which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole) or to one-time developments (increase in personal income tax collections due to taxes paid on filing related to the 1996 taxation year) that will not be repeated in future months. In *The Economic and Fiscal Update* released on October 15, 1997, the government indicated that the budget would be balanced no later than 1998-99.

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Canada

Table 1
Summary statement of transactions

	November		April to November	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,002	11,723	87,656	93,043
Program spending	-8,056	-7,711	-65,617	-62,756
Operating surplus	2,946	4,012	22,039	30,287
Public debt charges	-3,564	-3,433	-30,157	-28,912
Deficit/surplus	-618	579	-8,118	1,375
Non-budgetary transactions	1,262	1,642	4,361	4,363
Financial requirements/surplus (excluding foreign exchange transactions)	644	2,221	-3,757	5,738
Foreign exchange transactions	-2,653	1,638	-3,780	5,603
Total financial requirements/surplus	-2,009	3,859	-7,537	11,341
Unmatured debt transactions	3,019	-105	2,665	-11,510

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Budgetary revenues up in April to November period

Over the April to November 1997 period, budgetary revenues were up $5.4 billion, or 6.1 per cent, compared to the same period a year ago. Of this increase, about $0.6 billion was attributable to the acceleration of employment insurance premium revenues, with the remainder attributable to the strength in the economy.

- Personal income tax collections were up $2.9 billion, reflecting higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to income growth in the 1996 taxation year.
- Corporate income tax collections were up $2.2 billion, while other income taxes, primarily non-resident withholding taxes, increased by $0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up $0.6 billion. All of this increase reflected the effect of the change in remittance procedures. In January 1997, there was a change to the base on which premium rates are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end. As a result, employment insurance premium revenues should also record a decline in December 1997 on a year-over-year basis. In addition, with the recently announced reduction in employee premium rates from $2.90 per $100 of insurable earnings in 1997 to $2.70 for 1998, premium revenues for 1997-98 should be lower than those reported in 1996-97.
- Good and services tax collections were up $1.3 billion, largely attributable to the strength in consumer demand.
- The decline in customs import duties reflected the impact of tariff reductions under multilateral trade agreements. Other excise taxes and duties were up $0.3 billion, primarily due to higher energy-related taxes.
- Non-tax revenues were down $2.0 billion. Of the decline, $1.5 billion was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System. Most of the remaining decline was due to lower earnings on investments reflecting the impact of the decline in interest rates.

Program spending lower in April to November period

Program spending declined $2.9 billion, or 4.4 per cent in the first eight months of 1997-98, compared to the same period last year, with all major components,

Table 2
Budgetary revenues

	November		April to November		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,341	5,574	42,567	45,435	6.7
Corporate income tax	1,094	1,375	8,381	10,531	25.7
Other income tax revenue	250	202	1,475	1,577	6.9
Total income tax	6,685	7,151	52,423	57,543	9.8
Employment insurance premium revenues	1,571	1,221	12,552	13,196	5.1
Excise taxes and duties					
Goods and services tax	1,415	1,960	10,247	11,590	13.1
Customs import duties	254	269	1,663	1,636	-1.6
Other excise taxes and duties	680	828	5,356	5,690	6.2
Total excise taxes and duties	2,349	3,057	17,266	18,916	9.6
Total tax revenues	10,605	11,429	82,241	89,655	9.0
Non-tax revenues	397	294	5,415	3,388	-37.4
Total budgetary revenues	11,002	11,723	87,656	93,043	6.1

except subsidies and other transfers, lower. The decline in total program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and, to a lesser extent, to the growth in the economy.

- Major transfers to persons declined $0.3 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.
- Major transfers to other levels of government were down $2.1 billion, reflecting lower cash transfers under the CHST and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at $25.1 billion, down $1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down $1.9 billion over the first eight months of 1997-98, compared to the same period last year, of which about $1.2 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down $0.1 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving and non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.
- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by $0.5 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review

Table 3
Budgetary expenditures

	November		April to November		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,852	1,867	14,328	14,711	2.7
Employment insurance benefits	746	837	7,665	7,023	-8.4
Total	2,598	2,704	21,993	21,734	-1.2
Other levels of government					
Canada Health and Social Transfer	1,267	982	10,058	8,115	-19.3
Fiscal transfers	697	839	6,376	6,253	-1.9
Alternative Payments for Standing Programs	-166	-180	-1,346	-1,423	5.7
Total	1,798	1,641	15,088	12,945	-14.2
Subsidies and other transfers					
Agriculture	81	53	461	371	-19.5
Foreign Affairs	147	111	939	905	-3.6
Human Resources Development	168	98	1,051	883	-16.0
Indian and Northern Development	256	265	2,510	2,642	5.3
Industry and Regional Development	95	125	854	986	15.5
Veterans Affairs	111	112	905	915	1.1
Other	255	188	1,711	2,098	22.6
Total	1,113	952	8,431	8,800	4.4
Total transfers	5,509	5,297	45,512	43,479	-4.5
Payments to Crown corporations					
Canadian Broadcasting Corporation	69	75	649	597	-8.0
Canada Mortgage and Housing Corporation	168	153	1,186	1,077	-9.2
Other	89	88	814	722	-11.3
Total	326	316	2,649	2,396	-9.6
Operating and capital expenditures					
Defence	764	782	5,644	5,508	-2.4
All other departmental expenditures	1,457	1,316	11,812	11,373	-3.7
Total	2,221	2,098	17,456	16,881	-3.3
Total program expenditures	8,056	7,711	65,617	62,756	-4.4
Public debt charges	3,564	3,433	30,157	28,912	-4.1
Total budgetary expenditures	11,620	11,144	95,774	91,668	-4.3

exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has proposed that cash transfers over the 1997-98 to 2002-03 period will never fall below $12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily reflecting the timing of payments associated with the sale of the Air Navigation System to Nav Canada. Payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Table 4
The deficit/surplus and financial requirements/surplus

	November		April to November	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-618	579	-8,118	1,375
Loans, investments and advances				
Crown corporations	-64	-92	696	180
Other	-110	-9	-404	-150
Total	-174	-101	292	30
Specified purpose accounts				
Canada Pension Plan Account	-956	-691	15	299
Superannuation accounts	-185	-195	3,961	3,153
Other	15	-9	155	-237
Total	-1,126	-895	4,131	3,215
Other transactions	2,562	2,638	-62	1,118
Total non-budgetary transactions	1,262	1,642	4,361	4,363
Financial requirements/surplus (excluding foreign exchange transactions)	644	2,221	-3,757	5,738
Foreign exchange transactions	-2,653	1,638	-3,780	5,603
Total financial requirements/surplus	-2,009	3,859	-7,537	11,341

Table 5
Financial requirements/surplus and unmatured debt transactions

	November		April to November	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-2,009	3,859	-7,537	11,341
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	3,900	3,500	19,253	10,575
Canada Savings Bonds	5,057	109	3,235	-1,958
Treasury bills	-7,800	-3,500	-24,100	-19,000
Other	315	168	308	160
Subtotal	1,472	277	-1,304	-10,223
Less: Government's holdings of unmatured debt	-1,308	-822	-455	-28
Total	164	-545	-1,759	-10,251
Payable in foreign currencies				
Marketable bonds	2,743	42	2,743	-236
Notes and loans	0	0	0	0
Canada bills	-89	342	-88	-684
Canada notes	201	56	1,769	-339
Total	2,855	440	4,424	-1,259
Total unmatured debt transactions	3,019	-105	2,665	-11,510
Change in cash balance	1,010	3,754	-4,872	-169

Table 6

Cash, unmatured debt and debt balances: at November 30

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	3,659	9,175
In foreign currencies	15	20
Total cash balance	3,674	9,195
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	272,018	293,138
Treasury bills	142,000	116,400
Canada Savings Bonds	34,663	31,535
Other	3,786	3,627
Subtotal	452,467	444,700
Less: Government's holdings of unmatured debt	1,490	1,115
Total	450,977	443,585
Payable in foreign currencies		
Marketable bonds	12,257	12,224
Notes and loans	0	0
Canada bills	6,897	7,752
Canada notes	2,079	1,782
Total	21,233	21,758
Total unmatured debt	472,210	465,343

Public debt charges lower in April to November period

Public debt charges were down $1.2 billion, or 4.1 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

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January 1998

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for December 1997

Budgetary surplus of $3.6 billion recorded in December 1997

A budgetary surplus of $3.6 billion was recorded in December 1997 – the largest one-month surplus in recorded history. This represents an improvement of $1.4 billion from the budgetary surplus of $2.2 billion recorded in December 1996. All of the year-over-year improvement was due to higher revenues, as public debt charges were up slightly and program spending was relatively unchanged.

Budgetary revenues were up $1.5 billion, or 10.3 per cent. Budgetary revenues are usually higher in December than in any other month of the fiscal year, as the December results include final corporate income tax payments for most financial institutions, quarterly personal income tax installments, and the transfer of Bank of Canada profits. Personal income tax collections were up $1.1 billion. About half of this increase reflects recoveries from employment insurance premium revenues due to overpayments for taxation year 1996 and a reclassification of collections from non-tax revenues, thereby having no direct impact on the overall increase in budgetary revenues. The remainder was primarily attributable to higher quarterly installment payments. Corporate income tax collections were up $0.6 billion, reflecting the final settlement payments for those corporations with taxation years ending October 31. Goods and services tax (GST) collections were up $0.3 billion, while non-tax revenues increased $0.4 billion, primarily reflecting higher Bank of Canada profits. Employment insurance premium revenues declined $0.9 billion, reflecting the impact of the change in remittance requirements that came into effect in January 1997 and the transfer to personal income tax collections due to overpayments for taxation year 1996.

Budgetary surplus of $5.0 billion for April to December 1997 period

Over the first nine months of the 1997-98 fiscal year, there was a budgetary surplus of $5.0 billion, an improvement of $10.9 billion from the same period last year. This year-over-year improvement was largely attributable to the increasing strength in the economy and the impact of previous budget measures. Budgetary revenues were up $6.8 billion (6.7 per cent), program spending declined $2.9 billion (3.9 per cent), while public debt charges were $1.2 billion lower (3.4 per cent).

Financial surplus of $14.8 billion in April to December 1997 period

With a budgetary surplus of $5.0 billion and a net source of funds from non-budgetary transactions of $1.9 billion, there was a financial surplus, excluding foreign exchange transactions, of $6.9 billion, compared to a net requirement of $2.9 billion over the same period last year. Foreign exchange transactions provided the government with a net source of funds amounting to $7.8 billion over the April to December 1997 period, compared to a net requirement of $2.2 billion over the nine months in 1996-97. As a result, there was a total financial surplus of $14.8 billion to date, compared to a net requirement of $5.1 billion over the same period last year. There was a net repayment of market debt of $12.9 billion in the first nine months of 1997-98 and an increase of $1.9 billion in cash balances.

Balanced budget expected for 1997-98

Based on the financial results to date, coupled with expected developments over the balance of the fiscal year (including the end-of-year accounting period adjustments), and incorporating the measures announced in the 1998 budget, a balanced budget is now expected for 1997-98.

Table 1

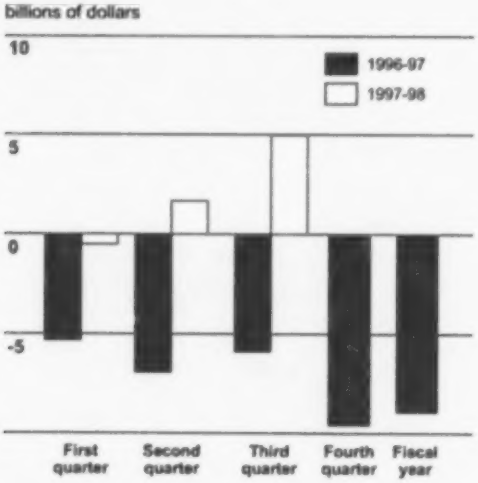
Summary statement of transactions

	December		April to December	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	14,173	15,630	101,830	108,673
Program spending	-8,344	-8,309	-73,961	-71,066
Operating surplus	5,829	7,321	27,869	37,607
Public debt charges	-3,638	-3,718	-33,795	-32,630
Deficit/surplus	2,191	3,603	-5,926	4,977
Non-budgetary transactions	-1,369	-2,426	2,994	1,936
Financial requirements/surplus (excluding foreign exchange transactions)	822	1,177	-2,932	6,913
Foreign exchange transactions	1,573	2,238	-2,206	7,840
Total financial requirements/surplus	2,395	3,415	-5,138	14,753
Unmatured debt transactions	-914	-1,348	1,751	-12,855

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

The federal budgetary balance 1996-97 and 1997-98

Year to date



Budgetary revenues up in April to December period

Over the April to December 1997 period, budgetary revenues were up $6.8 billion, or 6.7 per cent, on a year-over-year basis. This increase primarily reflects the continuing strength in the economy.

- Personal income tax collections were up $4.0 billion, or 8.1 per cent. This increase was due to higher taxes paid on filing and quarterly installment payments, relating to the stronger income growth in the 1996 taxation year and to higher deductions at source from employment, in line with the strong gains in employment this year. In addition, there was a net transfer from the Canada Pension Plan and employment insurance accounts, relating to overpayments to these accounts in respect of previous taxation years.
- Corporate income tax collections were up $2.7 billion, or 27.6 per cent, attributable to an increase in corporate profits, in line with the strengthening economy.

Table 2

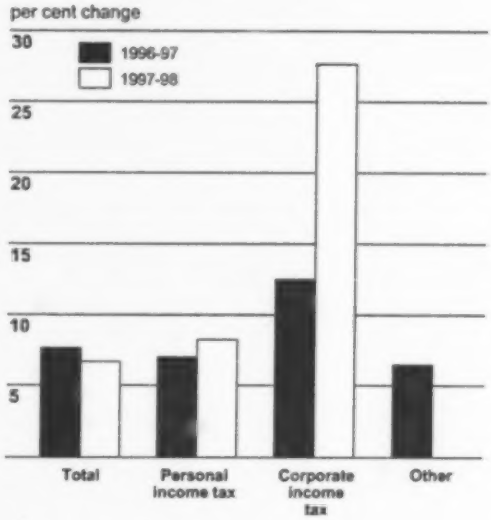
Budgetary revenues

	December		April to December		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	7,146	8,281	49,713	53,717	8.1
Corporate income tax	1,478	2,046	9,859	12,577	27.6
Other income tax revenue	253	16	1,728	1,593	-7.8
Total income tax	8,877	10,343	61,300	67,887	10.7
Employment insurance premium revenues	1,554	670	14,105	13,866	-1.7
Excise taxes and duties					
Goods and services tax	2,113	2,387	12,360	13,976	13.1
Customs import duties	211	261	1,874	1,897	1.2
Sales and excise taxes	604	713	5,960	6,402	7.4
Total excise taxes and duties	2,928	3,361	20,194	22,275	10.3
Total tax revenues	13,359	14,374	95,599	104,028	8.8
Non-tax revenues	814	1,256	6,231	4,645	-25.5
Total budgetary revenues	14,173	15,630	101,830	108,673	6.7

- Employment insurance premiums were down $0.2 billion, or 1.7 per cent. This was largely due to a transfer to personal income tax collections relating to overpayments for the 1996 taxation year.
- Net GST collections were up $1.6 billion, or 13.1 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were virtually unchanged, as the strong growth in imports witnessed in 1997 offset the impact of tariff reductions. Other excise taxes and duties were up $0.4 billion, or 7.4 per cent, primarily reflecting higher receipts from energy taxes.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down $1.6 billion or 25.5 per cent,. This decline was primarily attributable to the inclusion in the 1996-97 results of the proceeds ($1.5 billion) from the sale of the Air Navigation System.

Budgetary revenues 1996-97 and 1997-98

April to December
Year-over-year growth



Program spending lower in April to December period

Program spending declined by $2.9 billion, or 3.9 per cent, in the first nine months of 1997-98, compared to the same period last year. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and to the growth in the economy.

- Major transfers to persons declined $0.1 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures, and a decline in the number of unemployed.
- Major transfers to other levels of government were down $2.3 billion, primarily reflecting lower cash transfers under the Canada Health and Social Transfer (CHST). In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at $25.1 billion, down $1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down $2.2 billion over the first nine months of 1997-98, compared to the same period last year, of which about $1.3 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Adjustments related to 1995-96 will result in an additional $236 million cash payment to provinces in March 1998. These amounts are in addition to $143 million that the government added to these transfer payments when it decided in December 1997 to apply the $12.5 billion cash guarantee one year earlier than previously announced.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by $0.4 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99. Within direct program spending, other transfer payments were up, solely due to payments associated with the sale of the Air Navigation System to Nav Canada, while expenditures relating to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

Public debt charges lower in April to December period

Public debt charges were down $1.2 billion, or 3.4 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

Budgetary expenditures 1996-97 and 1997-98

April to December
Year-over-year growth

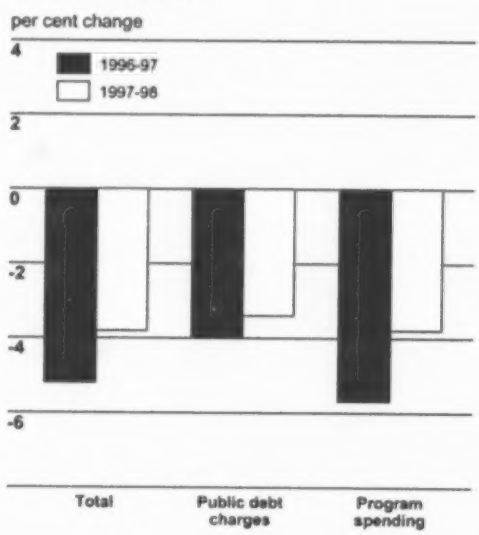


Table 3

Budgetary expenditures

	December		April to December		
	1996	1997	1996-97	1997-98	Per cent change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,809	1,863	16,136	16,575	2.7
Employment insurance benefits	932	1,024	8,597	8,047	-6.4
Total	2,741	2,887	24,733	24,622	-0.4
Other levels of government					
Canada Health and Social Transfer	1,267	1,047	11,325	9,163	-19.1
Fiscal transfers	713	738	7,089	6,991	-1.4
Alternative Payments for Standing Programs	-166	-180	-1,513	-1,603	5.9
Total	1,814	1,605	16,901	14,551	-13.9
Subsidies and other transfers					
Agriculture	100	35	561	406	-27.6
Foreign Affairs	177	148	1,116	1,053	-5.6
Human Resources Development	130	122	1,181	1,005	-14.9
Indian and Northern Development	290	299	2,799	2,940	5.0
Industry and Regional Development	257	263	1,111	1,249	12.4
Veterans Affairs	112	108	1,017	1,024	0.7
Other	298	324	2,009	2,422	20.6
Total	1,364	1,299	9,794	10,099	3.1
Total transfers	5,919	5,791	51,428	49,272	-4.2
Payments to Crown corporations					
Canadian Broadcasting Corporation	58	75	707	672	-5.0
Canada Mortgage and Housing Corporation	173	225	1,358	1,303	-4.1
Other	134	108	949	830	-12.5
Total	365	408	3,014	2,805	-6.9
Operating and capital expenditures					
Defence	810	734	6,453	6,242	-3.3
All other departmental expenditures	1,250	1,376	13,066	12,747	-2.4
Total	2,060	2,110	19,519	18,989	-2.7
Total program expenditures 8,344		8,309	73,961	71,066	-3.9
Public debt charges	3,638	3,718	33,795	32,630	-3.4
Total budgetary expenditures	11,982	12,027	107,756	103,696	-3.8

Table 4

The deficit/surplus and financial requirements/surplus

	December		April to December	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	2,191	3,603	-5,926	4,977
Loans, investments and advances				
Crown corporations	176	460	872	640
Other	-7	-242	-411	-393
Total	169	218	461	247
Specified purpose accounts				
Canada Pension Plan Account	-428	-502	-413	-203
Superannuation accounts	2,635	2,728	6,596	5,881
Other	49	-6	205	-243
Total	2,256	2,220	6,388	5,435
Other transactions	-3,794	-4,864	-3,855	-3,746
Total non-budgetary transactions	-1,369	-2,426	2,994	1,936
Financial requirements/surplus (excluding foreign exchange transactions)	822	1,177	-2,932	6,913
Foreign exchange transactions	1,573	2,238	-2,206	7,840
Total financial requirements/surplus	2,395	3,415	-5,138	14,753

Table 5

Financial requirements/surplus and unmatured debt transactions

	December		April to December	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	2,395	3,415	-5,138	14,753
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	6,106	6,313	25,360	16,888
Canada Savings Bonds	-273	-248	2,962	-2,205
Treasury bills	-6,800	-7,600	-30,900	-26,600
Other	-1	-1	307	159
Subtotal	-968	-1,536	-2,271	-11,758
Less: Government's holding of unmatured debt	113	-24	-343	-52
Total	-855	-1,560	-2,614	-11,810
Payable in foreign currencies				
Marketable bonds	0	109	2,743	-126
Notes and loans	0	0	0	0
Canada bills	-59	117	-147	-566
Canada notes	0	-14	1,769	-353
Total	-59	212	4,365	-1,045
Total unmatured debt transactions	-914	-1,348	1,751	-12,855
Change in cash balance	1,481	2,067	-3,387	1,898

Table 6

Cash, unmatured debt and debt balances: at December 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	5,151	11,259
In foreign currencies	4	3
Total cash balance	5,155	11,262
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	278,125	299,451
Treasury bills	135,200	108,800
Canada Savings Bonds	34,390	31,287
Other	3,785	3,627
Subtotal	451,500	443,165
Less: Government's holdings of unmatured debt	1,376	1,140
Total	450,124	442,025
Payable in foreign currencies		
Marketable bonds	12,257	12,334
Notes and loans	0	0
Canada bills	6,839	7,870
Canada notes	2,079	1,768
Total	21,175	21,972
Total unmatured debt	471,299	463,997

Financial surplus in April to December period

Financial requirements/surplus measure the difference between cash coming in to the government and cash going out. A financial surplus is usually higher than the budgetary surplus, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary surplus is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions usually provide the government with a net source of funds.

Non-budgetary transactions provided the government with a net source of funds, over the April to December 1997 period, amounting to $1.9 billion, compared to a net source of $3.0 billion in the same period last year. The lower source was attributable to the transfer of applicable pension assets to Nav Canada and the special one-time payment to the Canada Foundation for Innovation.

With a budgetary surplus of $5.0 billion and a net source of funds from non-budgetary transactions of $1.9 billion, there was a financial surplus, excluding foreign exchange transactions, of $6.9 billion in the first nine months of 1997-98. In the same period last year, there was a net requirement of $2.9 billion.

The purpose of the Exchange Fund Account is to promote order and stability of the Canadian dollar in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. Foreign exchange transactions resulted in a net source of $7.8 billion in the first nine months of 1997-98, compared to a requirement of $2.2 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of $14.8 billion in the April to December 1997 period. In the same period last year, there was a net requirement of $5.1 billion.

In the first nine months of 1997-98, the federal government retired $12.9 billion of its market debt. The structure of the government's debt has also changed significantly, in order to further reduce the exposure to unexpected changes in interest rates. The share of debt held in short-term floating rate instruments, primarily Treasury bills, has been reduced, while the share held in longer-term rate instruments has increased.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all goods and services tax revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
			(millions of dollars)			
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: *Public Accounts of Canada – 1997*

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